

Loan Guarantee Program for Multifamily Transitional Housing



U.S. DEPARTMENT OF VETERANS AFFAIRS

Program Manual



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1 INTRODUCTION

CHAPTER 1: INTRODUCTION

Chapter 1 Highlights:

1. *Purpose of Program Manual*
2. *The U.S. Department of Veterans Affairs*
3. *Program Description and Objectives*
4. *Key Definitions*

Purpose of Program Manual

This Program Manual provides an overview of the U.S. Department of Veteran Affairs (VA) Pilot Loan Guarantee Program for Multifamily Transitional Housing for Homeless Veterans (Program). The mission of the Program is to promote the development and operation of supportive multifamily transitional housing for homeless veterans in geographic areas of greatest need. This program manual is to be used by the Applicants to the Program, Developers of multifamily housing facilities, supportive and counseling service providers, VA staff members, and other interested third parties involved in the Program. The Manual provides information on the:

- Purpose and objectives of the Program
- Roles and responsibilities of Program participants
- Legal requirements
- Loan guarantee application process
- Program terms and fees
- Minimum underwriting criteria
- Additional source selection criteria
- Construction loan servicing
- Permanent loan servicing
- Loan guarantee payment process

The guidelines provided in this Program Manual are intended to be consistent with all applicable laws, Executive Orders, and VA regulations. Guidelines should not be construed to supersede, rescind, or otherwise amend such laws, Executive Orders, and regulations. **This manual is subject to revision.**

**The U.S.
Department
of Veterans
Affairs**

VA administers federal benefit programs for veterans and their dependents. VA provides medical care and research, disability compensation, pensions, insurance, education, training, home loan assistance, and National cemeteries for veterans. Several of its programs are geared toward specific populations including minorities, women, and the homeless.

**VA's
Homeless
Programs**

VA's homeless programs constitute the largest integrated network of homeless treatment and assistance services in the country. On any given day, as many as 200,000 veterans in the United States are living in the streets or in emergency shelters and perhaps twice as many experience homelessness at some point during the course of a year. VA's homeless programs are designed to help these veterans live as self-sufficiently and independently as possible. They offer a multitude of services, including:

- Aggressive outreach to those veterans living on the streets and in shelters who otherwise would not seek assistance;
- Clinical assessment and referral to needed medical treatment for physical and psychiatric disorders, including substance abuse;
- Long-term sheltered transitional assistance, case management, and rehabilitation;
- Employment assistance and linkage with available income supports; and
- Supported transitional and permanent housing.

Please visit VA's website at <http://www.va.gov/homeless/page.cfm?pg=2> to obtain more information on programs and initiatives specifically designed for homeless veterans.

**Program
Description
and
Objectives**

To complement VA's existing homeless programs, Congress authorized the Loan Guarantee Program for Multifamily Transitional Housing (section 601 of Public Law 105-368). This Program authorizes VA to guarantee up to 15 secured loans with an aggregate dollar amount of \$100 million to develop multifamily transitional housing with supportive services for homeless veterans. Loans are to be made in those communities that have the greatest need for such housing. The Program provides low-interest loans originated by the Federal Financing Bank (FFB), an arm of the U.S. Department of the Treasury, with a 100 percent guarantee by VA. In certain cases, a Program-guaranteed loan may cover up to 80 percent of total project costs. State or local governments or non-government entities must provide additional funding or substantial services. Due to the economics of the Program, it is anticipated that in most cases, VA-guaranteed loan amounts will fund considerably less than 80 percent of total project costs. VA will deliver Program funds as either combination construction and permanent guaranteed loans or permanent guaranteed loans. Funds may be used for acquisition or acquisition and development of real estate or rehabilitation of existing

improved real estate, or to refinance an existing loan. If the purpose of the loan is not to refinance an existing loan, it may include reasonable amounts for financing the acquisition of furniture, equipment, supplies, or materials for the facility; or for supplying the Borrower with working capital relative to the facility. The facility may include commercial space, such as space for neighborhood retail services or job training programs. A summary of the legislation authorizing this Program can be found on the VA Program website at: www.va.gov/homeless/page.cfm?pg=8. This Program does not fund single-family housing.

The Program has multiple objectives:

1. To increase the number of community beds for Homeless Veterans nationally by at least 5,000.
2. To help Homeless Veterans transition to permanent housing by providing Supportive Services, counseling, and requiring that Residents take personal responsibility to remain Sober, employed, and to pay monthly rent.
3. To determine whether a federal loan guarantee program is an effective tool for facilitating the development of transitional supportive housing for Homeless Veterans.

The VA expects that the projects in the program will be self-sustaining. To maximize the likelihood of a project's long-term success, VA requires that project Sponsors demonstrate the financial wherewithal to repay a Program loan as well as a high capacity to develop and operate transitional housing for homeless veterans. Sponsors and their development teams must show a strong track record. Applications must demonstrate that the supportive services strategy is needs-based and financially feasible, that it will be monitored and adapted as necessary to attain its goals, and that it will help participants make the transition to permanent housing. The supportive services strategy must be integrated with existing community services. Sponsors must demonstrate community support by, at a minimum, securing for their projects state, local, or non-governmental funding, property, and/or services.

Key Definitions

Applicant – The Sponsor, or its authorized agent, who is applying for a Loan Guarantee under the Program

Appraisal - a report setting forth an estimate or opinion of value.

Basis Point – one hundredth of a percentage point (0.01 percentage points). Basis points are commonly used to measure changes in or differences between yields or interest rates.

Borrower - A Single Purpose Entity, that (i) receives funds in the form of a program loan, (ii) has the obligation of repaying the program loan in full with interest, (iii) is responsible for satisfying all other requirements of the Program, and (iv) maintains continuing control over the Multifamily Transitional Housing Project. The Borrower must be comprised in full or in part by the Sponsor or its authorized agent and must be bankruptcy remote.

Combination Construction and Permanent Loan- A type of loan that becomes effective from the date of loan closing (which will occur on or before the date that construction of an eligible multifamily property begins) and converts to a Permanent Loan upon the earlier of either reaching a pre-specified minimum occupancy level, as determined by the Secretary, or at the end of 24 months from the date of loan closing. Occupancy should be stabilized for a period of 90 days prior to conversion to a Permanent Loan, however in no event shall the construction period exceed 24 months.

Conditional Commitment Letter - a conditional guarantee and non-binding commitment between the VA and the Applicant to lend/borrow funds under the loan guarantee program subject to certain conditions being met by the Applicant.

Construction Company - the builder hired by the Sponsor/Borrower or developer to build the proposed project

Construction Loan – a short term or interim loan for financing the cost of construction. A Construction loan will only be guarantee under the Program if made as part of a Combination Construction and Permanent Loan.

Debt Service Coverage Ratio (DSCR) – the ratio of a Project's cash flow available to pay for debt to the total amount of debt on the project.

U.S. Department of Veterans Affairs (VA) –VA is the administrator of the Program and the (100 percent) guarantor of Program Funds. This term shall also include any employee or contractor of the Department of Veterans Affairs.

Developer – the person or entity who arranges for the construction, rehabilitation, or development of a piece of land.

Developer Fee - the fee a developer receives from preparing raw land for building sites or rehabilitating existing buildings.

Eligible Homeless Veteran – a veteran who is not imprisoned or otherwise detained pursuant to a federal or State law and who either:

- (1) Lacks a fixed, regular, and adequate nighttime residence, or
- (2) Has a primary nighttime residence that is:
 - (i) A supervised publicly or privately operated shelter designed to provide temporary living accommodations (including welfare hotels, congregate shelters, and transitional housing for the mentally ill),
 - (ii) An institution that provides a temporary residence for individuals

intended to be institutionalized, or

(iii) A public or private place not designed for, or ordinarily used as, a regular sleeping accommodation for human beings, and

(3) Has been determined by a VA medical facility or the case manager of a facility receiving a loan guaranteed under this part to be clinically appropriate and able to seek, obtain, and maintain employment.

Engineering Report - a report rendered by an engineer evaluating the physical condition of property that has been inspected, with a summation or recommendation thereof.

Federal Financing Bank (FFB) – FFB is an arm of the U.S. Department of the Treasury authorized to make Program Funds available to Borrowers in accordance with Program requirements, at a rate that captures the premium between Treasury securities and the private sector lending rate and that fully reflects the risk inherent to a project when such a rate will accomplish a broader public policy goal. In no case will this rate be less than a comparable Treasury rate. The FFB will fund approved Program loans and VA will guarantee 100 percent of each loan.

Source: <http://www.ustreas.gov/ffb/resolution-2002-01.htm>

General Contractor - a party that performs or supervises the construction or development of a property pursuant to the terms of a primary construction contract. The General Contractor may use its own employees for this work or the services of other contractors (subcontractors).

Key Principal - the Sponsor or managing member of the Borrowing entity who has the decision-making authority over the borrowing entity. The Key principal may also be the main financial source behind the transaction.

Homeless Individual – an individual who lacks a fixed, regular, and adequate nighttime residence; also an individual who has a primary nighttime residence that is (a) a supervised publicly or privately operated shelter designed to provide temporary living accommodations (including welfare hotels, congregate shelters, and transitional housing for the mentally ill); (b) an institution that provides a temporary residence for individuals intended to be institutionalized; or (c) a public or private place not designed for, or ordinarily used as, a regular sleeping accommodation for human beings. The term “homeless individual” does not include any individual imprisoned or otherwise detained pursuant to an Act of the Congress or a State law.

Homeless Veteran- a Veteran who is a Homeless Individual.

Loan Committee- a group comprised of representatives from specific offices within VA who are tasked with the responsibility to review, evaluate and approve or reject prospective applications seeking award of a loan guarantee under the program.

Loan Guarantee – a loan guarantee under the program is a pledge by the Secretary to pay the loss incurred by FFB in the event of Borrower's default on a Program loan A loss may be due to either a monetary or non-monetary default.

Managing Member - the individual or entity who has the decision-making authority over the borrowing entity, usually the Key Principal.

Member Appraisal Institute (MAI) Certification - the highest professional designation awarded by the American Institute of Real Estate Appraisers.

Multifamily Transitional Housing Facility – a Supportive Housing Facility that provides transitional housing to Homeless Veterans. Multifamily Transitional Housing may be Single Room Occupancy but must, at a minimum:

- (1) Provide Supportive Services at the facility site with the goal of assisting Residents in becoming self-sufficient;
- (2) Require each Resident Veteran to seek to obtain and maintain employment;
- (3) Charge a reasonable fee for occupying a unit; and
- (4) Maintain strict guidelines regarding sobriety as a condition of residency.

Permanent Loan – a long-term loan on a property. In those instances where the Borrower has elected to obtain a Combination Construction and Permanent Loan, the Construction Loan will, without any further action taken by VA or Borrower, automatically and immediately convert to Permanent Loan status upon the earliest occurrence of one of the following: (i) VA's determination that the Project has met an acceptable minimum level of occupancy, (ii) VA determines that the Project has established a sufficient lease up reserve or (iii) 24 months passes from the date of loan closing. In no event will the loan convert to permanent later than 24 months from the date of loan closing.

Phase I Environmental - a basic study conducted to evaluate the environmental condition of real property and/or improvements.

Phase II Environmental - a study of the environmental condition of property/improvements that is more detailed and in-depth than a Phase I report. May include groundwater testing or testing of soil.

Physical Needs Assessment (PNA)– a report prepared by either an engineering firm or an architect that outlines the useful life of major building systems found at a property and identifies a replacement schedule and estimated cost of replacement.

Program- the VA Multifamily Transitional Housing Loan Guarantee Program established under subchapter VI, chapter 20, of title 38, United State Code, and implemented by VA

Program Funds- funds loaned to the Borrower by FFB and guaranteed by VA for the purposes of the Program.

Project- a project under the auspices of one or more Sponsors for the development, financing, construction (including renovation or rehabilitation), operation, and management of Multifamily Transitional Housing authorized by, and approved and conducted under the Program.

Resident- a Homeless Veteran who is currently residing in Multifamily Transitional Housing provided under the Program. Resident may also include Veterans who are not homeless and Homeless Individuals who are not Veterans, if VA, in its sole discretion, has determined that the transitional housing needs of Homeless Veterans in the Project area have been met and that the housing needs of any such Veteran or Homeless Individual can be met in a manner compatible with Program requirements.

Secretary- the Secretary of Veterans Affairs, an officer of the United States. This term shall also include any employee or contractor of the Department of Veterans Affairs authorized to act on behalf of the Secretary.

Servicing Agreement – A written agreement between VA and VA's designated mortgage servicer stipulating the rights and obligations of both parties.

Single Purpose Entity - a corporation, partnership or LLC that is bankruptcy remote and created by or under the authority of the laws of a state, territory, or possession of the U.S. for the sole purpose of owning a Multifamily Transitional Housing facility. Approval of whether the Single-Purpose Entity meets the requirements of the Program is subject to the Secretary's discretion.

Single Room Occupancy (SRO) – a unit for occupancy by one person, which need not, but may, contain food preparation or sanitary facilities, or both.

Sober- a person's body is free of alcohol or controlled substances unless such substances are being used under the direction of a physician.

Sponsor – an artificial person or legal entity that is (i) created by or under the authority the laws of a state, territory, or possession of the U.S., (ii) comprised of officers, members, managers, partners, and/or shareholders who are U.S. Citizens or permanent legal residents, (iii) is responsible for the coordination of the Project's financing and construction and, through the Borrower, has the primary responsibility for a Project's long-term operation and management, including the coordination and implementation of a Supportive Services program. A project must have one or more Sponsors.

Supportive Housing Facility- a facility that assists Homeless Individuals to transition from homelessness to permanent housing by providing short-term

housing (generally not to exceed 24 months) and Supportive Services. A Supportive Housing Facility may also be referred to as “Facility” in this manual.

Supportive Services – services that may be designated by the Sponsor that address the needs of Homeless Veterans to be served by the Facility and provide appropriate services or assist such persons in obtaining appropriate services. Supportive services include: conducting outreach activities; providing food, nutritional counseling, counseling, health care, mental health treatment, alcohol and other substance abuse services, and case management services; establishing and operating child care services for dependents of homeless veterans; providing supervision and security arrangements for the protection of Residents and for Homeless Veterans using the services; providing assistance in obtaining permanent housing; providing education, employment counseling, and job training; establishing and operating an employment assistance program; providing assistance in obtaining other federal, state, and local assistance available for Residents including mental health benefits, employment counseling, veterans’ benefits, medical assistance, and income support assistance such as Supplemental Security Income benefits, Temporary Assistance to Needy Families, General Assistance, Food Stamps, etc.; and providing housing assistance, legal assistance, advocacy, transportation, and other services essential for achieving and maintaining independent living. Inpatient acute hospital care does not qualify as a supportive service. In the event of a Borrower default under the Program, VA is not responsible for providing Supportive Services for non-eligible Veterans.

Underwriter – The underwriter is the designated party who is responsible for the independent analysis of the transaction and the risk involved in making a mortgage loan and who determines whether the risk is acceptable to the lender. The underwriter’s analysis involves the evaluation of the property as outlined in the Appraisal report, the application, the third party reports, the project pro forma financial results and of the Borrower’s ability and willingness to repay the loan.

Veteran – a person who served in the active military, naval, or air service, and who was discharged or released therefrom under conditions other than dishonorable (38 U.S.C. §§101(2)).

2 OVERVIEW OF THE PROGRAM

CHAPTER 2: OVERVIEW OF THE PROGRAM

Chapter 2 Highlights:

1. *Program Features*
2. *Program Restrictions*
3. *Roles and Responsibilities of Program Participants*
4. *Overview of the Loan Guarantee Application Process*

Program Features

This Program is intended to promote the development and operation of Multifamily Transitional Housing for Homeless Veterans. It offers a number of unique features to achieve this goal.

A Pilot Program

The Program's enabling legislation authorizes VA to administer the Program on a pilot basis, guaranteeing up to 15 loans with an aggregate dollar amount of up to \$100 million. Guarantees are to be made in geographic areas that have the greatest need for supportive housing for Homeless Veterans.

A Federal Guarantee

VA will guarantee 100 percent of the unpaid principal balance and accrued interest due, but unpaid, of a Program loan.

A Moderate Loan-to-Cost Ratio

The original principal balance of the guaranteed loan may not exceed 80 percent of the total amount actually incurred by the Borrower to develop the transitional housing facility, including the cost of acquiring and preparing the land, the cost of constructing, remodeling, or rehabilitating the necessary buildings, cost of necessary furniture, equipment and fixtures, and reasonable costs of development including the cost of architects, surveyors, and legal services, but excluding the Developer's Fees.

In many instances, projects will be financed through a high percentage of state and local funding and the Program loan amount will be significantly less than 80 percent of cost.

Long-Term Permanent Financing

The term of the Permanent Loan shall not exceed 40 years and shall be based on VA's credit underwriting assessment. The loan terms will usually be 30 to 35 years, and up to 40 years only where circumstances warrant.

Combined Construction and Permanent Loans

The Program will provide permanent and/or Combination Construction and Permanent financing, and may include reasonable amounts for the acquisition of furniture, equipment, supplies, or materials for the facility or for supplying the Sponsor/Borrower with working capital relative to the facility.

Below-Market Interest Rates

Funding for this Program is made available directly through the FFB, which allows VA to provide financing at below-market interest rates.

Low Debt-Service Coverage Ratio

The Debt-Service Coverage Ratio is defined as the ratio of the annual net operating income of a property to its annual debt service. This ratio will assist VA in assessing the likelihood of a facility's ability to cover expenses and pay debt service. VA may underwrite Program-guaranteed loans using a DSCR target of 1.10 or better, but ratios above 1.15 are preferred.

Substantial Participation by Other Funders

Projects funded by a Program guarantee must include funding and/or the substantial provision of property or services by a state or local government or a nongovernmental entity or entities.

Support Services

Sponsors must develop a Supportive Services program that (a) includes an employment program that is designed to help resident veterans attain long-term employment once they leave the facility and that requires residents to obtain and maintain employment while living in the facility; and (b) clearly identifies how resident veterans will attain and transition to permanent housing. Supportive Services must be provided throughout the loan term.

Program Restrictions

Program restrictions include:

1. One of the purposes of the Program is to determine whether supportive transitional housing communities for veterans may be developed using low-cost debt and the subsidies available at the state and local level. Other federal, state, local, and conventional sources of financing may be used in conjunction with the loan guarantee, including Home Investment Partnership Program (HOME) grant funds, Community Development Block Grant (CDBG) funds, and low income housing tax credits, to the extent allowed by these providers. The VA guarantee applies only to funds lent under this Program by FFB.
2. Working capital and/or costs associated with the acquisition of furniture, equipment, supplies, or materials for the facility may not be included in Program guarantees used to refinance an existing loan.
3. The Program loan amount may not exceed 80 percent of the total project cost.
4. When refinancing a loan under this Program, proceeds may not be used to fund a Developer Fee unless the refinancing is tied to the substantial rehabilitation of the property.

5. Disbursement of a Developer Fee must be structured to provide an incentive to the developer to complete and lease up the facility as planned. Disbursement of the Developer Fee must be tied to the developer's completion of certain milestones specified by the Secretary, with a 10 percent holdback until, at a minimum, three months of stabilized occupancy occurs.
6. The FFB loan must be the senior loan on the real estate.

Roles and Responsibilities of Program Participants

The Program is intended to increase the supply of supportive transitional housing for Homeless Veterans by providing low-interest rate loans guaranteed by VA. Each participant in the Program plays a significant role in achieving the Program goals. Therefore, it is important to understand the roles and responsibilities of each Program participant, as summarized below:

1. U.S. Department of Veterans Affairs --- Guarantor

VA serves as the administrator of the Program. It is also the guarantor of construction financing and permanent multifamily mortgage loans made under this Program by FFB, the lender. VA's responsibilities include:

- Identifying targeted geographic locations with the greatest need for transitional housing for Homeless Veterans
- Publicizing the availability of funds and establishing the application process
- Underwriting loan applications, either directly or through a designated underwriter
- Approving loan guarantee applications
- Servicing loans, either directly or through a designated servicer
- Monitoring Sponsors for compliance with Program legislation, regulations, and rules
- Processing and paying any loan guarantee payments to FFB

2. Federal Financing Bank ---Lender

The FFB will provide funds to approved Sponsors in accordance with VA's instructions. VA may direct FFB to disburse funds to the Sponsor for up to 80 percent of the total cost of the project. FFB will have limited interaction with the proposed Sponsor, with most correspondence going through either the VA or the designated Loan Servicer.

3. Sponsor

The Sponsor is the legal entity or combination of legal entities with continuing control of a Multifamily Transitional Housing Project and responsibility for repayment of the guaranteed loan. The Sponsor is the Applicant and, if approved, is or will create the Borrower of Program Funds.

The Sponsor must be a legal entity chartered in the United States and be composed of officers, members, managers and or shareholders who are citizens of the United States or permanent legal residents. The Borrower must be a Single Purpose Entity whose sole purpose is the owning and operating of the Multifamily Transitional Housing Facility subject to the loan guaranteed by this Program.

Sponsors must have demonstrated expertise in owning and operating multifamily real estate. The Sponsor should show that they have experience with projects of similar size and scope and have completed or placed in service at least one currently operating supportive, affordable and/or other housing community of a size comparable to or larger than the proposed project.

The Sponsor should possess a good reputation for reliability, service and commitment to the intended population. Based on the Sponsor's/Borrower's involvement with low-income housing, they should be familiar with and have developed strong working relationships with local housing authorities and social services agencies.

Adverse indicators that would affect a Sponsor's eligibility include:

- No previous experience,
- No established roots in the neighborhood in which the proposed project would be located,
- Evidence that a builder, landowner, consultant or other party expecting to directly and or indirectly benefit financially has initiated the project and influences the sponsorship,
- Lack of professional expertise to develop, build and operate the project successfully, or
- Some Sponsors are likely ineligible without considering factors of strength and weakness, such as a non-profit entity controlled by the builder or the builder's family or by any other person or persons who would derive a profit or fee from the project.

Sponsors are eligible to receive funds under this Program provided that the ownership entity or one or more of its principals, architects, property managers, supportive services coordinators, general contractors or subcontractors are:

- Currently not debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any federal department or agency,
- Have not within the three-year period preceding the submission of a loan guarantee application, been convicted of or had a civil judgment rendered against them for commission of fraud or an offense in connection with obtaining, attempting to obtain, or performing a public (federal, state, or local) transaction or contract under a public transaction; for violation of federal or state antitrust statutes; or for commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, or receiving stolen property,
- Are not currently indicted for, or otherwise criminally or civilly charged by, a governmental entity (federal, state, or local) with commission of any of the offenses enumerated directly above, or
- Have not, within the three-year period preceding the submission of a loan guarantee application, had one or more public transactions (federal, state, or local) terminated for cause or default.

Sponsors must commit to:

- Provide transitional housing to homeless veterans
- Provide housing for homeless veterans for 20 years from the date the loan is funded. This use restriction is to be recorded in the land records in the event the borrower pays off the loan prior to loan maturity.
- Develop and maintain facilities that are decent, safe, and sanitary and are in compliance with all federal, state and local laws, local ordinances, zoning requirements, and regulations on building requirements and health and safety standards.
- Provide on-site Supportive Services and counseling services with the goal of assisting Resident Veterans in becoming self-sufficient
- Require that each Resident Veteran seek to obtain and maintain employment
- Ensure that the occupancy and rent requirements are met
- Charge Residents a reasonable fee for occupying a unit in the facility
- Maintain strict guidelines regarding Sobriety as a condition of occupancy
- Comply with all other Program rules and regulations

- Comply with all provisions of the loan agreement

4. Service Provider

A unique and critical component of the Program is its requirement that the projects it finances offer Supportive Services that assist in moving Homeless Veterans into jobs and equip them to make the transition to permanent housing. The project Sponsor has the responsibility for providing these Supportive Services. The Sponsor may provide these services directly or in partnership with an experienced services coordinator.

The Sponsor must develop a supportive services plan for coordinating and managing supportive services for residents. The plan must:

- Include an employment program designed to help the Resident Veterans attain long-term employment once they leave the facility,
- Include a realistic strategy to foster self-sufficiency in the Resident Veterans,
- Identify how Resident Veterans will attain and transition to permanent housing, and
- Identify which services will be provided on-site and off-site, as well as who will provide them.

The Sponsor during the period of a loan must conduct an ongoing assessment of the Supportive Services needed by the Residents of the Facility and the availability of such services, and make adjustments as appropriate. The Sponsor must provide evidence of this ongoing assessment to VA at such times as are deemed necessary, but, at a minimum, once annually in the form of a report that addresses the Sponsor's ability to meet the goals, objectives, measures, and special needs.

The Sponsor, during the period of the loan, must have an active and aggressive outreach effort intended to ensure that homeless veterans are aware of the opportunity to obtain residency at the multifamily transitional housing facility and must make efforts to ensure that to the maximum extent feasible all beds are filled by homeless veterans. These efforts must include active liaison with the VA medical centers serving the area and with state, local, and private agencies and organizations providing services to Homeless Veterans.

5. Underwriter

The Underwriter assesses a proposed project on behalf of the VA with respect to the Project's economic feasibility. This process involves comprehensive analysis of certain factors such as the creditworthiness of the Applicant and the economic value of the

Facility as an income-producing investment. While VA has primary responsibility for project underwriting decisions, it may engage a third party to conduct the underwriting. A third-party Underwriter is expected to use its experienced judgment in drawing conclusions about the proposed project and will be primarily guided by VA's underwriting guidelines contained in this program manual and by any additional guidelines developed for the Program.

6. Servicer

The Servicer administers the loan and promotes steps necessary to keep a loan in "good standing." VA has primary responsibility for loan servicing decisions but may engage a third party to conduct servicing tasks such as:

- Monitoring construction period progress and lender draw activity
- Collecting mortgage payments during the permanent financing period
- Remitting funds to the FFB
- Employing workout measures and other collection procedures with respect to a delinquent loan
- Corresponding with Sponsors

The Servicer will also collect periodic reports submitted by Sponsors. The reports will allow VA to assess a project's financial and physical condition as well as its compliance with the VA guarantee Program rules and objectives, the Fair Housing Act, and applicable civil rights laws. Such reports include, but are not limited to, annual audited financial statements and reports documenting the progress of the resident population in securing jobs and transitioning to permanent housing. Please refer to Chapter 8 for details on Servicer reporting requirements.

Overview of the Loan Guarantee Application Process

Following is a summary of the VA loan guarantee application process. Please refer to Chapter 4 for more details on this process. Please note that during the pilot phase of the program, the process may differ from what is noted in the Manual.

Stage 1 Application

Applicants will be required to submit a completed stage 1 application to VA for initial underwriting. In Stage 1, Applicants will submit preliminary proposal information including:

- Project Summary
- Site Information

- Estimate of Operating Income
- Estimate of Operating Expense
- Operating Pro Forma
- Sources of Development and Operating Funds
- Uses of Funds
- Development Team Information

Applications will be received on a rolling basis until all commitments have been extended. Upon receipt of an application, VA will review the application for completeness and eligibility. In the event multiple applications are received at the same time, the applications will first be grouped into geographic areas and then ranked within their geographic area to ensure that facilities are established in the areas with the greatest need. VA will rate each application for eligibility and feasibility.

The rating criteria are based on four general areas:

- The financial feasibility of the Facility
- The quality of the facility proposed to be used for a Multifamily Transitional Housing Facility,
- The quality of Supportive Services to be provided at the Multifamily Transitional Housing Facility, and
- The quality of the Applicant's proposed development and management team.

*Conditional
Commitment*

Those applications received first and deemed appropriate or those receiving the highest ratings will be selected to receive a conditional commitment to guarantee the loan. In its sole discretion, VA will invite Applicants with proposals deemed eligible and feasible to submit a stage 2 application.

In the event of a tie between applications, the Applicant proposing to provide the most new beds will be selected from among those that have the tied ratings.

*Stage 2
Application*

The stage 2 application will collect any information that may have changed since the submission of the stage 1 application. In addition, the Applicant must submit more detailed site information including proof of site control, appropriate zoning, a relocation plan, a draft set of plans and updated cost estimates, financial statements for the property or proposed Sponsor/Borrower and an ALTA survey if available. As part of the stage 2 application process, the Applicant must provide certifications regarding debarment, suspension, and other responsibility matters; drug-free workplace; lobbying; occupancy of the facility by eligible homeless veterans; maintenance of strict guidelines regarding sobriety as a condition of residency; and others required by VA.

Underwriting

Once the VA receives a completed stage 2 application from the Applicant, the proposed loan will be subject to an underwriting process. As part of the underwriting process, the Applicant must also submit for review a complete Appraisal, prepared by a qualified appraisal company satisfactory to VA; a Phase I Environmental Report, a Phase II Environmental report if appropriate, a soils report and an Engineering Report if appropriate. These reports are to be prepared for the benefit of VA and are to be paid for by the Sponsor. The Underwriter will analyze the information provided by the Sponsor and present the loan to the VA or the designated Loan Committee within VA. If the VA or its designated Loan Committee believes the loan should be recommended for approval to the Secretary, the loan is then sent to the Office of Management and Budget (OMB) for review and apportionment.

If the proposed loan is a Combination Construction and Permanent Loan, a detailed analysis of the construction budget and plans will also be reviewed in conjunction with the documentation provided above. If the analysis reveals both the budget and the plans to be reasonable and appropriate to the scope of the project and the market, the loan review process will proceed. If it is determined that the cost or proposed plans are unacceptable the proposed transaction may need to be revised before moving to a firm commitment.

*Firm
Commitment*

If after underwriting the stage 2 application VA determines that the proposed loan meets its criteria and upon receipt of an approved apportionment from OMB, VA will issue a firm commitment letter to the Applicant to guarantee the loan outlining conditions that must be satisfied prior to loan closing within a specified term.

Loan Closing

Once the commitment letter has been issued, the VA will prepare the necessary legal documentation to document the transaction. As part of the closing process, the VA requires a current survey and a lender's title insurance policy. When the Sponsor has resolved all of the conditions in the commitment letter, VA and the Sponsor must execute a regulatory agreement that governs their relationship. Once the legal documents have been signed by both parties VA will issue a guarantee.

In the case of a Combination Construction and Permanent Loan, the Loan Guarantee will go into effect when the first funds are drawn down. VA will permit a construction period that does not exceed 24 months. The term of the Loan shall not exceed 40 years and shall be based on VA's underwriting assessment. The loan terms will usually be 30 to 35 years, and up to 40 years only where circumstances warrant.

3 LEGAL REQUIREMENTS

CHAPTER 3: LEGAL REQUIREMENTS*Chapter 3 Highlights:*

1. *Overview*
2. *VA Transitional Housing Legislation*
3. *Civil Rights*
4. *Fair Housing*
5. *Environmental Requirements*
6. *Other Requirements*
7. *OMB Standard Form 424*
8. *Davis-Bacon Act*
9. *Subsidy Laverina Review*

Overview

Projects funded under this Program must comply with all applicable federal, state and local laws. All proposed Applicants must have the legal authority to apply for federal assistance and the institutional, managerial and financial capability to carry out the assumptions represented in the application. Each Sponsor will be asked to self-certify their compliance with certain laws, rules, and regulations outlined on the Certifications and Assurances Form (Appendix 0). The required certification is not an exhaustive list but provides the minimum assurances required under the Program. Not all certifications or assurances noted on the form may be applicable to every transaction. It will be the responsibility of the Sponsor in conjunction with their legal counsel to ensure that they are in compliance with all appropriate federal, state, and local laws.

The fact that the project will be receiving a federally-guaranteed loan does not exempt the project from state or local laws ordinarily applicable to similar privately-funded projects.

**VA
Transitional
Housing**

The Sponsor will carry out the object and purpose of subchapter VI of chapter 20 of title 38, United States Code (38 U.S.C. § 2051, et seq.), which is to increase the number of beds available for Homeless Veterans and to promote a successful transition from homelessness to independent living by creating a safe, supportive environment for the Veterans.

**Fair
Housing**

The Fair Housing Act, 42 U.S.C. § 3604, prohibits discrimination against any person in the terms, conditions, or privileges of sale or rental of a dwelling, or in the provision of services or facilities in connection therewith, because of race, color, religion, sex, familial status, or national origin.

**Environmental
Requirements**

The Sponsor must meet certain environmental requirements related to the site. Program Sponsors must provide a description of any known environmental issues that may affect the Project. Requirements include the following:

(1) An environmental review must be conducted in accordance with the National Environmental Policy Act prior to taking any action on a loan guarantee application.

(2) A Finding of No Significant Impact (FONSI) must be issued prior to the issuance of a firm commitment.

If environmental issues are found, an Operations and Maintenance Program may be imposed.

Other Requirements

Other requirements include compliance with Clean Air Act and Water Pollution Control Act; Lead Based Paint Poisoning Prevention Act (42 U.S.C. §§ 4801 et seq.); Intergovernmental Personnel Act of 1970; the Hatch Act; Wild and Scenic Rivers Act; Drug Free Work Place Act; the National Historic Preservation Act of 1966 and the Archaeological and Historic Preservation Act of 1974 (16 U.S.C. §§469a-1 et seq.); the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (P.L. 91-646) Accessibility Standards for Construction, and Flood Hazard requirements.

OMB Standard Form 424

Sponsors will be required to submit OMB Standard Form 424, Application for Federal Assistance. The form will be used by VA to obtain Sponsor certification that States that have established a review and comment procedure in response to Executive Order 12372, and have selected the Program to be included in their process, have been given an opportunity to review the Sponsor's submission. Executive Order 12372 is intended to foster an intergovernmental partnership and to strengthen federalism by relying on state and local processes for state and local coordination and review of proposed federal financial assistance.

Davis-Bacon Act

Sponsors must comply, as applicable, with the provisions of the Davis-Bacon Act (40 U.S.C., Section 276a to 276a-7) in addition to the Copeland Act (40 U.S.C. §276c and 18 U.S.C. §874), and the Contract Work Hours and Safety Standards Act (40 U.S.C. §§327-333) regarding labor standards for federally assisted construction sub-agreements. Notwithstanding the requirements of these or any other law, however, the project may accept uncompensated voluntary services performed by an eligible public or nonprofit entity (as defined by 38 U.S.C. § 2011(d)) in connection with the construction, alteration, or repair of the project. See: 38 U.S.C. § 2051(g), as amended by P.L. 108-454 § 402.

Subsidy Layering Review

If a project is receiving assistance from the Department of Housing and Urban Development (HUD) or low-income tax credits, in addition to the VA guaranteed loan, the project must comply with the requirements of [Pub. L. 102-550](#), title IX, Sec. 911, Oct. 28, 1992, 106 Stat. 3875, as amended by [Pub. L. 103-233](#), title III, Sec. 308, Apr. 11, 1994, 108 Stat. 379.

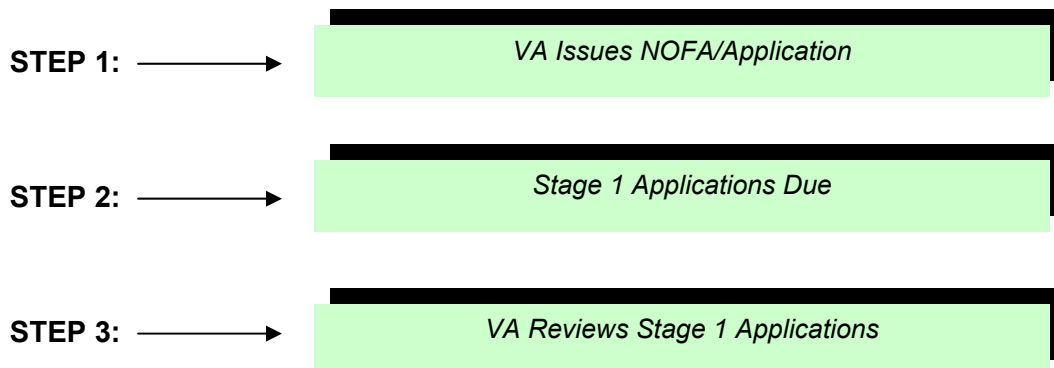
4 THE LOAN GUARANTEE APPLICATION PROCESS

CHAPTER 4: THE LOAN GUARANTEE APPLICATION PROCESS*Chapter 4 Highlights:*

1. *Application Process*
2. *Stage 1 Application*
3. *Conditional Commitment*
4. *Stage 2 Application*
5. *Firm Commitment*
6. *Loan Closing*

Application Process

The Program has a two-staged application process. Stage 1 of the application is designed to allow assessment of a project's eligibility and feasibility. VA will invite Applicants whose stage 1 applications are deemed eligible and feasible to submit stage 2 applications. Stage 2 applications must include credit reports and updated financial information on the project Sponsor, Developer, Social Service Provider and Contractor in addition to third-party reports such as Appraisals, Engineering Reports and environmental assessments. The information collected in the stage 2 application is intended to enable VA to make a final determination about which applications to approve and guarantee. Applications will be received on a rolling basis. Funds will be committed on a first come first served basis provided applications successfully meet all underwriting criteria. In the event multiple applications are received and subsequent evaluation is required, a rating and ranking process is in place which looks first the need in of a corresponding geographic location and second to the competitiveness and appropriateness of applications received. The steps involved in the application/loan-making process, from the issuance of the application to the issuance of the loan guarantee, are shown below:



STEP 4: —————→ *VA Issues Conditional Commitment*

STEP 5: —————→ *VA Requests Stage 2 Applications for Eligible Proposals*

STEP 6: —————→ *Stage 2 Applications Due*

STEP 7: —————→ *VA Reviews Stage 2 Applications*

STEP 8: —————→ *VA Approves Eligible Stage 2 Applicants*

STEP 9: —————→ *VA Issues Firm Commitment*

STEP 10: —————→ *Loan Closing*

STEP 11: —————→ *VA Issues Loan Guarantee*

Stage 1 Application

The stage 1 application allows VA to make a preliminary determination of a project's eligibility and feasibility. There are nine sections, plus required attachments. Below is a summary of the information required in each section:

Section 1: Project Summary

Provides an overview of the project's VA funding needs, mission, design, location, size, development program, targeted resident population, and development milestones, as well as of the roles and responsibilities of the Sponsor, property

Stage 1 Application Requirements:

- ✓ *Project Summary*
- ✓ *Site & Market Information*
- ✓ *Estimate of Operating Income*
- ✓ *Estimate of Operating Expenses*
- ✓ *Operating Pro Forma*
- ✓ *Sources of Development and Operating Funds*
- ✓ *Uses of Funds*
- ✓ *Development Team Information*
- ✓ *Services Information*
- ✓ *Stage 1 Attachments*

manager, and services coordinator; the basis for the project's income and expense estimates; the demand for the project; and preliminary schematics (if available) and cost estimates. Much of this information is to be provided through a detailed project narrative.

Section 2: Site and Market Information

Provides VA with photographs of the project site and surrounding area, a market study, and a map of the area around the project, including amenities and public transportation services.

Section 3: Estimate of Operating Income

Provides VA with estimates of all sources of operating income, as well as market rental rates, vacancy rates and lease-up assumptions. These estimates and assumptions must be supported by the market study provided in Section 2.

Section 4: Estimate of Operating Expenses

Provides VA with estimates of project operating expenses, including any supportive services expenses to be funded through project rents.

If supportive services are not intended to be paid through project rents, a separate budget is recommended. This section requires supporting documentation of key assumptions.

Section 5: Operating Pro Forma

Provides VA with an overview of the Project's long-term income and operating expenses, net operating income, debt service coverage ratios, and cash flows. This section of the application automatically calculates net operating income and cash flows based on information entered in earlier sections of the application. This section also requires supporting documentation of key assumptions.

Section 6: Sources of Development and Operating Funds

Documents all sources of project development and operating funds and the status of their commitment and/or on going availability. All Projects must include funding and/or the substantial provision of property or services by a state or local government or a non-governmental entity. Section 6 divides these sources into debt, grants, bridge loans, tax credit and developer equity, donations, operating and supportive services subsidies, and fee/tax waivers.

Section 7: Uses of Funds

Provides VA with information on the projected uses of funds and which sources will be allocated to cover them. There are two categories of uses: (1) construction costs; and (2) permanent costs.

Construction costs can include:

- Acquisition of land and buildings
- On-site work

- Off-site work (e.g., streets, curbs)
- Construction/Rehabilitation expenses
- Professional fees (e.g., architect, engineering, accounting, legal, real estate, Appraisal)
- Developer fees
- Interim costs and closing (e.g., construction interest and loan fee, insurance, title, taxes)
- Construction period reserves

Permanent costs can include:

- On-going construction costs
- Permanent financing fees and expenses
- Start-up expenses (e.g., organizational costs, furnishing, equipment, working capital, supplies, marketing)
- Syndication costs (e.g., legal fee, tax opinions)
- Project reserves (e.g., operating/vacancy/lease-up, maintenance/replacement)

Section 8: Development Team Information

Provides VA with information on the development team's organizational structure and capacity to develop, own, and operate a Program-funded Project. The application seeks supporting information about the Sponsor, development consultant, construction company, property management firm, architect, and services coordinator.

Section 9: Services Information

Provides VA with information about the Project's Supportive Services plan. Because the provision of Supportive Services to help Homeless Veterans become self-sufficient is one of the central requirements of the Program, Section 9 asks for detailed information about the following topics: services to be provided; needs assessment and outreach strategy; service delivery strategy; coordination with other programs and service providers; performance objectives; and the services budget.

As noted in Chapter 2, the VA will rate and rank all stage 1 applications received and offer a conditional commitment for a loan guarantee to those projects determined to have the highest ratings.

Conditional Commitment

If, after the preliminary underwriting of the stage 1 application, VA determines that the proposed loan meets its criteria, VA will issue a Conditional Commitment Letter to the Applicant outlining the conditions that must be satisfied prior to loan closing within a specified term.

Stage 2 Application

In its sole discretion, VA will invite those Applicants whose projects appear eligible and feasible after stage 1 review and analysis to submit a stage 2 application. In the stage 2 application, Applicants must update any information that has changed since stage 1, as well as provide additional documentation pertaining to the feasibility of the project.

Section 1: Project Summary

The Applicant must update the project summary if it has changed since stage 1. In addition, the Applicant must contact the appropriate State Single Point of Contact to find out about, and to comply with, the State's process under Executive Order 12372. Applicants must provide a copy of any comments or recommendations received by state and clearinghouses pursuant to Executive Order 12372. As mentioned earlier, Executive Order 12372 is intended to foster an intergovernmental partnership and to strengthen federalism by relying on state and local processes for state and local coordination and review of proposed federal financial assistance.

Section 2: Site Information

The Applicant must update any site information that has changed since Stage 1 and provide additional specific information about the proposed site, including:

- Evidence of Site Control
- Evidence of Proper Zoning
- Documentation of Community Support
- Phase I Environmental Report (Phase II if necessary)
- Engineering Report: VA may require that the Sponsor/Borrower obtain an Engineering Report/Physical Needs Assessment for the project on behalf of VA. A qualified engineering firm, with experience in analyzing projects of similar size and scope, must complete the report. If the Sponsor/Borrower elects not to use the Engineering firm recommended by VA or its underwriter, VA reserves the right to review and approve the firm proposed by the Sponsor.
- A Draft Set of Plans or Biddable Schematics if available
- If available, a detailed construction budget on an AIA form
- Soils Reports for new construction or as needed

Stage 2 Application Requirements:

- ✓ Updated Project Summary
- ✓ Updated Site Information
- ✓ Updated Estimate of Operating Income
- ✓ Updated Estimate of Operating Expenses
- ✓ Updated Operating Pro Forma
- ✓ Updated Sources of Development and Operating Funds
- ✓ Updated Uses of Funds
- ✓ Updated Development Team Information
- ✓ Updated Services Information
- ✓ Updated Certifications
- ✓ Stage 2 Attachments

- Updated Cost Estimates
- Financial statements for the facility for the last three years, if a rehabilitation or refinancing loan is proposed
- Title Report (if available otherwise due at or before loan closing)
- ALTA (American Land Title Association) Survey – boundary survey, locating all observable improvements on the property and locating, where possible, all encumbrances of record (easements, setbacks, flood zones) (if available otherwise at or before loan closing)
- Proof of Insurance (if available otherwise at or before loan closing)
- Appraisal, with VA required language and completed within the last six months. The Appraisal must meet certain requirements set forth under the Appraisal section in Chapter 6 of this manual. (Note that in its sole discretion, VA may choose to order a new Appraisal.)
- Certification that the proposed site is free of Historical/Archeological Implications

Section 3: Estimate of Operating Income

The Applicant must update any operating income estimates that have changed since stage 1.

Section 4: Estimate of Operating Expenses

The Applicant must update any operating expense estimates that have changed since stage 1.

Section 5: Operating Pro Forma

The Applicant must update any pro forma information that has changed since stage 1.

Section 6: Sources of Development and Operating Funds

The Applicant must update any information pertaining to sources of development and operating funds that has changed since stage 1. In addition, the Applicant must provide evidence of commitment of sources (e.g., commitment letters, services commitments, memoranda of understanding).

Section 7: Uses of Funds

The Applicant must update any information pertaining to the uses of funds that has changed since stage 1.

Section 8: Development Team Information

The Applicant must update any development team information that has changed since stage 1.

Section 9: Services Information

The Applicant must update any services information that has changed since stage 1.

Certifications

The Applicant must execute the VA Certification Form (Appendix O), which provides but is not limited to the following certifications:

- Certification Regarding Debarment, Suspension, and Other Responsibility Matters
- Certification Regarding Drug-Free Workplace
- Certification Regarding Lobbying
- Assurances (e.g., compliance with Program requirements, compliance with federal statutes relating to non-discrimination, compliance with provisions of the Davis-Bacon Act, compliance with environmental standards, compliance with required financial audits)
- Certification that the Facility will serve homeless veterans
- Certification that the Facility maintains strict guidelines regarding Sobriety as a condition of residency.

Underwriting

Once the VA receives a completed stage 2 application from the Applicant, the proposed loan will undergo a full underwriting review. As part of the underwriting process, the Applicant must also submit for review a complete Appraisal, prepared by a VA approved appraisal company; A Phase I Environmental Report, a Phase II Environmental report if appropriate, a soils report and an Engineering Report or Physical Needs Assessment if appropriate. The Underwriter will analyze the information provided by the Sponsor and present the loan to the VA or a designated committee within VA. If the VA or its designated committee believes the application should be recommended for approval to the Secretary of VA, the application is then sent to OMB for review and apportionment.

For Combination Construction and Permanent Loans, the VA or its Underwriter will undertake a thorough review of the proposed construction contract. The review will take place before a firm commitment is issued in order to evaluate whether the proposed budget will be sufficient to successfully complete the proposed project for the funds outlined in the application. If it is determined that the construction budget is unacceptable, the VA will require that the Sponsor revise the budget and possibly obtain additional sources of funds or establish a contingency reserve to offset potential change orders and/or unanticipated expenses.

**Firm
Commitment**

If, after underwriting the stage 2 application, VA determines that the proposed loan meets its criteria and upon receipt of an apportionment from OMB, VA will issue a firm commitment letter to the Sponsor to guarantee the loan

outlining conditions that must be satisfied prior to loan closing within a specified term including the VA's title and survey requirements.

**Loan
Closing**

Once the commitment letter has been issued, the VA will prepare the necessary legal documentation to document the transaction. As part of the closing process, the VA requires a current survey and a lender's title insurance policy.

*Title
Insurance*

All mortgages must be covered by a title insurance policy. The title insurance policy must meet the following conditions:

- o The single maximum risk assumed by any title insurer may not exceed 25% of the company's capital, surplus and statutory reserves.
- o The insurer issuing the title policy must be licensed in the jurisdiction where the property is located.
- o The title insurance company must be satisfactory to VA or its underwriter.
- o The policy should be in an amount equal to the original principal balance of the loan.
- o The effective date of the policy should be no earlier than the date on which the mortgage is recorded.
- o The policy must name the VA and or FFB as the insured.
- o The title insurer must write the policy on the 1992 ALTA Lenders Policy. If the 1992 ALTA policy is not approved in the jurisdiction where the property is located, then the approved form should be utilized.

*Legal
Documentation*

VA and the Sponsor must execute a series of documents that governs their relationship. Documentation includes those documents between the VA and the Borrower in addition to those documents required of the FFB.

*Loan
Guarantee*

VA will issue a guarantee at the time that all the legal documents are executed.

In the case of a Combination Construction and Permanent Loan, the Loan Guarantee will go into effect when the first construction funds are drawn down. VA will guarantee construction advances, not to exceed 80 percent of the work in place up to the VA Loan Guarantee amount or proportional to the VA Loan Guarantee amount, if the Sponsor obtains acceptable credit enhancements. Acceptable credit enhancements include a performance and payment bond and an irrevocable letter of credit from another lender.

VA will convert the guarantee on the construction loan to a guarantee on the permanent loan once the construction is complete and the underwriting and

lease-up assumptions in the project pro forma have been met for a period of 90 consecutive days, or an escrow has been established in an amount that will equal pro forma rental income when combined with actual receipts from project operations or on the date of the first principal payment date identified in the Note. Chapter 7 outlines the Construction Loan servicing process and Chapter 8 outlines the workout options available in the event of a default.

In general, the minimum level of occupancy equates to at least 85 percent occupancy sustained for at least 90 days at the pro forma assumptions for rent and debt service coverage. In lieu of meeting the minimum level of occupancy, Sponsors may establish a lease-up reserve. The lease-up reserve will be a percentage of the appraised value of the project or the total development cost, whichever is greater. This reserve is project-specific and is sized according to specific development needs during the underwriting process. If the Project has not stabilized within a 24-month period or if a lease up reserve has not been established, the Project will be deemed in default under the loan documents. If construction is not complete by the first principal payment date under the Note, the loan will convert to permanent and be in default under the documents.

If tax credits are used in conjunction with the VA guarantee, the Sponsor must meet any occupancy requirements in the tax credit partnership agreement before VA will issue the permanent guarantee.

5 PROGRAM TERMS AND FEES

CHAPTER 5: PROGRAM TERMS AND FEES*Chapter 5 Highlights:*

1. *Program Terms*
2. *Program Fees*

**Program
Terms***Federal Guarantee Amount*

VA will guarantee 100 percent of the unpaid principal balance and accrued interest due but unpaid, of the Program loan. The original loan amount may equal up to 80 percent of total project costs. It is anticipated that in most cases, the guarantee will cover significantly less than 80 percent of the total project cost.

Combination Construction and Permanent Financing

The Program will provide construction and permanent financing and may include reasonable amounts for the acquisition of furniture, equipment, supplies, or materials for the facility or for supplying the Sponsor with working capital relative to the facility. This is intended to encourage the development of new transitional, multifamily housing in the areas of greatest need. It is assumed that potential Sponsors will apply for either permanent financing or a combination of construction and permanent financing. VA does not anticipate any applications solely for construction financing.

Permanent Loan Term

The term of the Permanent Loan shall not exceed 40 years and shall be based on VA's credit underwriting assessment. The loan terms will usually be 30 to 35 years, and up to 40 years only where circumstances warrant. Due to the intent and purpose of the program, VA under certain circumstances is willing to extend the loan beyond a standard 30-year loan term. If the intended term is greater than 30 years, the Project must have a 25 percent useful life remaining upon the expiration of the loan term. (Chapter 6 provides additional detail on Appraisal Requirements)

For example: If the proposed loan term is 40 years, the building must be determined to have a useful life of 53.5 years.

Determination of the term will be at VA's sole discretion and documented as part of the loan underwriting process.

Construction Loan Term

A Construction Loan may be guaranteed if it is part of a combination construction and permanent loan. The construction period can be no longer than 24 months.

Maximum Permanent Loan Interest Rate (base + spread)

The interest rate to the Sponsor will be the applicable Treasury rate plus a spread that captures the liquidity premium between Treasury securities and the private sector lending rate. The rate will fully reflect the risk inherent in a Sponsor or transaction when such a rate will accomplish a broader policy goal. In no case will the interest rate be less than a comparable Treasury rate. The applicable Treasury rate will be consistent with the term of the loan. For terms not readily discernable from the Treasury curve, FFB will establish a rate with a comparable term.

Construction Interest Rate

VA will guarantee construction advances only as part of a combination construction and permanent loan. During the construction period, the interest rate will be set at the time of each disbursement of funds. The disbursement of funds (amount and timing) will be governed by the draw schedule established between the Sponsor and VA. If the draw schedule identifies multiple disbursements, the interest rate on each disbursement will be determined by the interest rate environment at the time of that disbursement. The Sponsor will have the ability to purchase an interest rate cap from FFB to help mitigate the variability of market interest rates. Pricing and terms for interest rate caps are established by FFB and documented in the Note Purchase Agreement.

VA will convert the guarantee on a Construction Loan to a guarantee on a Permanent Loan once the underwriting and lease-up assumptions indicated in the application have been met.

Debt Service Coverage Ratio

The minimum DSCR shall be 1.10. VA in its sole discretion may require a higher DSCR and ratios above 1.15 are preferred.

Prepayment Options

Recipients of loan guarantee commitments will have two prepayment options, one of which must be selected by the Sponsor at the time the funds are drawn. Please see Table 1 below. Prepayment may not result in a substantial change in the use of the facility, unless VA determines that the facility is no longer needed. Borrowers may consider the fixed-price prepayment option to avoid the interest rate risk associated with the market-value prepayment option.

Table 1: Prepayment Options

<i>Market Value Prepayment Privilege</i>	The standard prepayment privilege will allow the Borrower to prepay at a price equal to the difference between (a) the price for such advance that would produce a yield for the period from the date of the purchase to such maturity date substantially equal to the interest rate that would be set on a loan from the Secretary of the Treasury to FFB to purchase an obligation having a payment schedule identical to the payment schedule of such advance for the period from the date of prepayment to such maturity date and (b) the sum of (1) the outstanding principal amount of such advance on the date of prepayment; and (2) all unpaid interest accrued on such advance through the date of prepayment.
<i>Fixed-Price Prepayment Privilege</i>	A second prepayment privilege will allow the Sponsor to prepay its loan either at any time or after an agreed-upon no-call period, and either at a fixed price or at par, in each case as selected by the Sponsor at the time the funds are drawn on its VA-guaranteed loan. This prepayment privilege will be offered to Sponsors at an additional cost equal to the interest rate spread that FFB determines would be charged on an obligation issued by the Secretary of the Treasury having prepayment provisions identical to the particular prepayment provisions selected by the Sponsor. At the Sponsor's option, the additional cost for a fixed-price prepayment privilege may be paid in a single payment equal to the present value of the interest rate spread over the term of the loan.

Refinancing a Program Loan

Sponsors who receive a Program loan may be offered refinancing privileges at costs and on terms that are consistent with the prepayment privileges offered by FFB, provided that the facility continues to meet VA Program requirements.

**Program
Fees**

Table 2 details the fees associated with the Program. **VA reserves the right, in its sole discretion, to modify, eliminate, or waive any of these fees for the Program as a whole or with respect to individual Applicants/Sponsors.** Please refer to Chapter One for the definitions of the fees identified below.

Table 2: Program Fees	
<i>Late Fee</i>	If any monthly installment payment is not received by the Secretary prior to the 11 th calendar day after the same is due (without regard to any applicable cure and/or notice period), Borrower shall pay to the Secretary upon demand an amount equal to the lesser of (a) four percent (4%) of such unpaid sum or (b) the maximum amount permitted by applicable law to defray the expenses incurred by the Secretary in handling and processing such delinquent payment, and such late fee shall be secured by the loan documents.
<i>Assumption Fee</i>	A non-refundable review fee in the amount of \$3,000 and a transfer fee equal to 1 percent of the outstanding indebtedness immediately prior to the transfer.
<i>FFB Administration Fee</i>	The FFB Administration Fee is equal to one eighth of one percent per annum of the unpaid principal balance on each advance. The fee is charged in addition to the interest rate and not incorporated in the interest rate spread.

6 MINIMUM UNDERWRITING CRITERIA

CHAPTER 6: MINIMUM UNDERWRITING CRITERIA*Chapter 6 Highlights:*

1. *Overview*
2. *Applicant and Project Eligibility*
3. *Development Team Experience, Capacity, and Coordination*
4. *Appropriateness and Feasibility of the Supportive Services Program*
5. *Project Site and Design Requirements*
6. *Compliance with Federal Legal Requirements*
7. *Additional Source Selection Criteria*

Overview

This chapter describes VA's minimum underwriting criteria, as follows:

1. Applicant and project eligibility
2. Development team experience, capacity, and coordination
3. Appropriateness and feasibility of the Supportive Services program
4. Financial feasibility
5. Project site and design requirements
6. Compliance with Federal legal requirements

VA or its designated underwriter (hereinafter VA) will evaluate applications to assess whether they are eligible under the program and economically feasible. As part of the underwriting process, VA will:

- Evaluate the market demand for the project
- Assess the reasonableness of pro-forma assumptions including income, expense amounts and reserves as well as the overall viability of the financial model
- Evaluate lease-up assumptions, vacancy rates, and projected market rents
- Review the Applicant's qualifications and ability to operate the facility in accordance with the loan terms and Program requirements
- Assess the creditworthiness of the Sponsor/Borrower based on current financial records and financial history in relation to their ability to support the transaction.
- Determine an appropriate DSCR.
- Review the plans and specifications for the construction/rehabilitation of the facility

- Review all materials prepared by outside parties such as appraisers, architects, attorneys, environmental consultants, engineers, surveyors, or cost estimators
- Evaluate the market value of the facility to be used to estimate the total amount of financing the facility can support
- Review the management plan and management agreement for the facility
- Review the appropriateness and viability of the supportive services program

**Applicant
and
Project
Eligibility**

Both the Sponsor and the proposed project must demonstrate an ability to meet the Program eligibility requirements described in this section in order to receive further review.

*Eligible
Applicants*

Following are the eligibility requirements for project Sponsors and their principals:

- The Sponsor/Borrower must be creditworthy. Creditworthiness refers to the concept of ability, willingness and capacity to repay a loan. In assessing creditworthiness, lenders use criteria, such as DSCR, credit history and financial strength in assessing the Sponsor's ability to support the transaction.
- If the Sponsor/Borrower is not already established as a Single-Purpose Entity, it must establish such an entity to serve as the Borrower for the VA-guaranteed loan prior to loan closing.
- The Sponsor/Borrower must demonstrate an ability and intention to maintain and operate the transitional housing facility in accordance with Program objectives and requirements identified in this manual. The Sponsor/Borrower demonstrates an ability to maintain and operate the facility through past performance on other properties and through relevant experience operating housing with a Supportive Services component. In addition, the Sponsor/Borrower outlines its plan to operate the property securing the VA Loan Guarantee in the application.
- The Sponsor/Borrower must be in compliance with all legal and regulatory requirements with respect to any VA program and any federal debt.
- The Sponsor/Borrower must be a U.S.-owned corporation, a limited liability corporation, or a partnership in which the principals are U.S. citizens or permanent legal residents.

Ineligible Applicants

Applicants may not receive a VA loan guarantee if they, their principals, their architect, property manager, supportive services coordinator, general contractor and subcontractors, or their principals:

- Are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any federal department or agency;
- Have within a three-year period preceding their VA Loan Guarantee application been convicted of or had a civil judgment rendered against them for commission of fraud or an offense in connection with obtaining, attempting to obtain, or performing a public (federal, state, or local) transaction or contract under a public transaction; violation of Federal or state antitrust statutes; or commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, or receiving stolen property;
- Are presently indicted for, or otherwise criminally or civilly charged by, a governmental entity (federal, state, or local) with commission of any of the offenses enumerated in the immediately preceding paragraph;
- Have within a five-year period preceding submission of their application had one or more public transactions (federal, state, or local) terminated for cause or default;
- Have within the past five years filed for bankruptcy; or
- Are delinquent or in default on another government-subsidized direct or guaranteed loan, per the Debt Collection Improvement Act of 1996.

In addition, Applicants will be considered ineligible if they or any of their principals have any outstanding VA audit findings. No organization may receive assistance that has an outstanding obligation to VA that is in arrears or for which a payment schedule has not been agreed to, or whose response to an audit is overdue or unsatisfactory.

If an applicant is found to be ineligible due to its principal, architect, property manager, supportive services coordinator, general contractor or subcontractor, the VA can require a change.

Identity of Interest

With respect to a proposed project, Applicants must identify any and all financial interests of any type, or appearance of same, that exist or will exist between or among the Sponsor, management agent, suppliers of materials or services, or vendors, in any combination of relationships. At its sole discretion, VA may disqualify a project from further consideration should an inappropriate identity of interest relationship exist.

Project Eligibility

The proposed project must:

- Be for an allowable Program use. Funds may be used for acquisition of land for, or construction or rehabilitation of, a Multifamily Transitional Housing Project for Homeless Veterans; or for the refinancing of an existing loan for such a Project. Provided that the

loan is not used to refinance an existing loan, it may include reasonable amounts for financing the acquisition of furniture, equipment, supplies, or materials for the Project; or for supplying the Sponsor with working capital relative to the project. The Project may include space for neighborhood retail services or job training programs.

- Be run as Multifamily Transitional Housing for Eligible Homeless Veterans until such time as a change in demand dictates a new target population, as determined by VA.
- Provide on-site Supportive Services and counseling services (including job counseling) with the goal of assisting Residents in becoming self-sufficient.
- Require that each Resident Veteran seek to obtain and maintain employment.
- Charge a reasonable residential rent.
- Maintain strict guidelines regarding Sobriety as a condition of residency.
- Include funding or the substantial provision of property or services by a state or local government or a nongovernmental entity.

**Development
Team
Experience,
Capacity,
and
Coordination**

The development team must demonstrate a proven track record in supportive housing development and operation. At a minimum, the development team includes a Sponsor and an architect. The Sponsor will coordinate the project's financing and construction and will have primary responsibility for its long-term operation and management, including the coordination and implementation of a Supportive Services program. Sponsors who lack experience developing affordable supportive housing must retain a development consultant with affordable supportive housing development expertise. Experienced Sponsors may develop and implement the Supportive Services program; otherwise, they must enter into a relationship with a services coordinator to do so. Sponsors must report and obtain prior written approval from VA for changes in the service provider and/or property management company.

VA will evaluate the team's capacity as presented in the application according to the following criteria:

APPLICANT

- VA must be in a position to conclude that the Applicant is positioned to carry out the obligations under the VA guarantee requirements and that its structure will promote the sound ownership and management of the facility over the life of the loan. The Applicant must provide documentary evidence that it is a valid legal entity chartered in the United States, licensed to do business in the state in which the facility is located, in good standing with the local jurisdiction, able to enter

into agreements governing the loan and guarantee, creditworthy, and financially strong. The Applicant must be composed of officers, members, managers and or shareholders who are citizens of the United States or permanent legal residents whose sole purpose is the owning and operating of the Multifamily Transitional Housing Facility subject to the loan guaranteed by this Program. Such evidence includes but is not limited to articles of incorporation, by-laws, certificates of good standing, evidence of 501(c)(3) or 501(c)(4) status, partnership agreements, joint venture agreements, audited financial statements, and credit references.

- Applicants are eligible to receive funds under this Program provided that the ownership entity or one or more of its principals, architects, property managers, Supportive Services coordinators, general contractors or subcontractors are:
 - Currently not debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any federal department or agency,
 - Have not within the three-year period preceding the submission of a loan guarantee application, been convicted of or had a civil judgment rendered against them for commission of fraud or an offense in connection with obtaining, attempting to obtain, or performing a public (federal, state, or local) transaction or contract under a public transaction; for violation of federal or state antitrust statutes; or for commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, or receiving stolen property,
 - Are not currently indicted for, or otherwise criminally or civilly charged by, a governmental entity (federal, state, or local) with commission of any of the offenses enumerated in paragraph(b)(2) of this section, or
 - Have not, within the three-year period preceding the submission of a loan guarantee application, had one or more public transactions (federal, state, or local) terminated for cause or default.
- An Applicant must secure VA consent prior to making any changes to its structure that could impact the viability of the project.
- The Applicant must have completed or placed in service at least one currently operating supportive, affordable and/or other housing community of a size comparable to or larger than the proposed project. If the Applicant seeks VA construction financing, the Applicant or its development consultant must have experience managing construction projects similar to the one proposed.
- The Applicant must have a demonstrated track record of working constructively with local and/or state governments to develop housing. Evidence may include securing government housing-related funding (including tax credits), property donation, reduction or dismissal of

liens on property to be developed as affordable housing, and tax relief. Other compelling evidence will be considered as well.

- The Applicant must demonstrate the financial capacity to undertake development and operation of the facility.
- The Applicant must demonstrate stability in the composition of its board (if applicable) and staff.

ARCHITECT

The architect must have local experience designing affordable housing communities.

GENERAL CONTRACTOR

The General Contractor must demonstrate overall financial stability and experience in building multifamily housing of a size, scope, design, and complexity similar to those of the proposed project. VA will require that the Sponsor or its contractor obtain a performance and/or payment bond equal in amount to the construction contract from the Construction Company.

PROPERTY MANAGER / PROPERTY MANAGEMENT COMPANY

The Applicant will be responsible for selecting and hiring a property management company (either the Applicant or a separate firm). As part of the stage 1 application, the Applicant must submit a property management company narrative that meets the minimum criteria described below in order to obtain initial approval from VA. If the Applicant decides to contract management of the Facility to another firm, the Applicant must submit to VA a draft management agreement with a qualified property management company as part of the stage 2 application. VA will issue final approval of the proposed property management company after the stage 2 underwriting process. An executed management agreement will be required at loan closing.

During the term of the loan, the Sponsor may wish to change property management companies. The proposed property management company must meet the guidelines set forth below. The Sponsor must submit a request to VA at least 60 days before the desired property management company transition date. VA must approve all changes to property management companies in writing prior to the Sponsor terminating the existing property management contract or signing a management contract with a new firm.

Property management companies must demonstrate the ability to manage a project consistent with all relevant Program requirements and specifications. Listed below are three types of property management companies. The differences among these types of companies relate to their ownership and not to the services that they perform.

- Self-Managed Company - In this arrangement, the Sponsor self manages the real estate through its own management company as a single

business entity. In other cases where a legal distinction is made between the management company and the Sponsor, a project is not considered self-managed.

- Identity of Interest (IOI) Management Company - An IOI relationship exists when an individual or entity that provides management services to the project has a relationship with the Sponsor that is such that selection of the management company and determination of the management fee cannot be determined through an arms-length transaction.
- Independent Fee Company – In this relationship, the property management company is neither a self-managed nor an IOI management company. The independent, third-party property management company earns a fee for the services it provides.

Minimum Criteria for Property Management Companies

The Sponsor is required to submit a property management company narrative during stage 1 that supports the following minimum criteria:

1. Professional Credentials
2. Management Experience
3. Past and Current Performance, as verified by references
4. Staffing Breadth and Depth
5. Resident Relations Experience
6. Maintenance and Operational Capability and Capacity
7. Office Management Experience
8. Security Capability and Capacity
9. Marketing, Advertising, and Public Relations Skills and Experience

Each of these areas is listed below and followed by a brief description of what it entails.

1. **Professional Credentials** – Professional credentials (e.g., certification programs, licenses, memberships, accreditations) demonstrate a property management company's commitment to achievement and excellence in the property management field. The Institute of Real Estate Managers offers the CPM®, ARM®, and AMO® designations. Please see the following website for more detailed information.

http://www.irem.org/i04_edu_pub_be/html/educred.cfm

2. **Management Experience** – Property management companies should demonstrate that they have management experience with multifamily housing that preferably provides supportive services. VA will assess management experience by considering the following:

- Number of years of relevant experience and particularly the number of years spent managing multifamily housing that provides supportive services
- Business references and organizational information for all principals and affiliates of the property management company
- Previous housing projects that the property management company has managed
- Professional credentials (see “Professional Credentials” section above)
- Dun & Bradstreet search
- Credit reports

On an exception basis, property management companies that do not have experience in providing a combination of multifamily housing and supportive services may be considered for the Program. In these cases, evaluation will focus on the experience of key staff members of the management company and on the experience in aspects of management that are essential to the provision of supportive services.

3. **Past and Current Performance** – VA will review the property management company’s track record and current performance. In cases where the property management company has encountered problems in the past, VA will investigate whether the property management company was either the source of the problem or proved to intensify or prolong it, as well as whether the property management company took the necessary corrective steps to address and remedy the problem and to prevent future occurrences.

In addition, proposed property management companies’ records with respect to adherence to non-discriminatory marketing, resident selection, and employment practices with regard to race, ethnicity, religion, disability, age, marital status, gender, etc. will be assessed. Evidence of the property management company’s familiarity with civil rights and fair housing laws should also be provided by the Applicant.

4. **Staffing** – The property management company should submit a proposed staffing plan. The following statistics should be provided with respect to staffing:
 - Staffing Pattern/Strategy
 - Job description: title, duties, approximate salary/hourly rates, and nature of position (i.e., full- or part-time)
 - Allocation of time and salary for staff members who may be working for more than one project or working part-time for the company in a non-supervisory capacity
 - Supervisory Hierarchy

- Decision-making Process
- Staff Training Procedures and Policies

Furthermore, the property management company should identify a community manager to implement its policies and supervise day-to-day project operations. This individual should possess the following qualifications:

- Professional designation in housing management from a national organization that provides such accreditation (see “Professional Credentials” section above)
- A minimum of two years experience in leading and overseeing multifamily housing projects that provide supportive services.

5. **Resident Relations** – The property management company should demonstrate its capacity with respect to the following aspects of maintaining positive resident relations:

- On-boarding Process: Resident Acceptance Criteria, Application Processing, Interviewing, Selection, Unit Assignment, and Orientation
- Communication
- Resident Surveys
- Social Events
- Building a Sense of Community
- Confidentiality
- Nuisance and Disruptive Behavior Management
- House Rules and Regulations Enforcement, such as sobriety
- Complaint Resolution
- Rent and Arrears (Schedule, Collection, Adjustment)
- Criteria and Procedures for Workout, Delinquency Accounts and Eviction
- Resident Retention

A property management company’s capacity in resident relations can be demonstrated through evidence of a positive past record and/or documented process for addressing the above items. The property management company should be prepared to discuss its plans for the subject property.

6. **Maintenance and Operations** – The property management company should demonstrate its capacity with regard to the following aspects of maintenance and operations:

- Maintenance Request Turnaround Time
- Renovation
- Property Preservation/Preventive Maintenance
- Repairs/Rehabilitation
- Building Inspections

- Domestic/Janitorial Services
- Environmental Considerations: Waste Disposal, Grounds Maintenance

A property management company's capacity in maintenance and operations can be demonstrated through evidence of a positive past record and/or documented process.

7. **Office Management** – The property management company should demonstrate its capacity with regard to the following aspects of office management:

- Records Management
- Bookkeeping
- Accounting
- Collections
- Budgeting
- Enforcement of Management Plan (see "Management Plan" below)

A property management company's capacity in office management can be demonstrated through evidence of a positive past record, documented process, and/or internal audit records.

8. **Security** – The property management company should demonstrate its capacity with regard to the following aspects of security:

- Physical Security Presence
- Property Access
- Resident Security
- Emergency Procedures
- Room Inspections
- Contingency Planning/Risk Management

A property management company's capacity in security can be demonstrated through evidence of a positive past record, documented process, and/or examples of security measures they have taken on currently or previously managed properties (e.g., neighborhood watch programs, security guard patrols, doormen, front desk attendants).

9. **Marketing, Advertising, and Public Relations** – The property management company should demonstrate its capacity and experience in performing the following aspects of marketing, advertising, and public relations:

- Outreach to identify new residents and a tailored plan to identify and attract homeless veterans
- Local market surveys to understand the rental opportunities in the neighborhood and consequently adjust rent levels and amenities to provide residents with comparable housing options

A property management company's capacity in marketing, advertising, and public relations can be demonstrated through evidence of a positive past record and/or documented process.

Management Agreement

All property management companies must execute a management agreement. A management agreement is also recommended for owner-managed projects. The agreement must clearly state the responsibilities and obligations of the property management company. The management agreement also establishes the management fees, including both how they are determined and conditions for their payment. The management agreement should contain the following:

- Scope of Services
- Required Clauses (in regard to management fees, terms of agreement termination, prohibited "hold harmless" clause, etc.)
- Agreement Length/Term (fixed versus open-ended)

The Sponsor must submit the management agreement to VA as part of its stage 2 application. VA requires all property management agreements to be terminable without cause with 30 days' notice.

Although the Sponsor signs the property management agreement with the property management company, the Sponsor assigns the property management agreement to the VA as part of the loan closing documents. This assignment allows VA to provide direction to the property management company in a delinquency management or foreclosure situation.

Property Management Fees

The Sponsor will pay the selected property management company a management fee for the property management services it provides. The management fee should be assessed for reasonableness when being negotiated by the Sponsor and property management company. Reasonableness can be determined by looking at what other property management companies in the same market offering comparable services charge. Special circumstances may result in fees that are either significantly higher or lower than those on similar projects. The Sponsor should assess whether or not the special circumstances justify the fee discrepancy. Alternative methods for determining management fees, i.e., percentage of rent collections, can also be used. At the Sponsor's discretion, periodic

reviews of the management fee may be conducted to ensure that they remain at reasonable, expected levels.

SUPPORTIVE SERVICES COORDINATOR

The Supportive Services coordinator (either the Sponsor or a separate Supportive Services coordinator) who is responsible for executing and managing the Supportive Services program, must demonstrate experience successfully operating a services plan of a size and scope similar to or larger than the plan being proposed, with maximum efficiency. In addition, the services coordinator must demonstrate the ability to obtain public and private funding for the types of services programs being proposed; the ability to assess and monitor its programs; and organizational stability.

TEAM COORDINATION FOR PROPERTY MANAGEMENT

The Sponsor must submit a plan for managing the facility that defines the roles and responsibilities of the owner, property manager, and supportive services coordinator, and any other key players in project operations, and provides a workable plan for performing the functions of property, financial, and resident management.

Appropriateness and Feasibility of the Supportive Services Program

A comprehensive, well-targeted Supportive Services program must be an integral part of any facility financed by the Program. Sponsors will be required to agree to provide such services at the time of origination and over the life of loan.

Needs Assessment

The services program must be based on a needs assessment that identifies the needs of Homeless Veterans in the community and estimates the demand for services. The needs assessment must incorporate the findings of the most recent VA CHALENG report. The CHALENG report is published each year and includes survey data from local governments, service providers, and formerly and currently Homeless Veterans about current perceptions of Homeless Veterans' needs, the degree of VA/community cooperation and collaboration in serving Homeless Veterans, and progress on local Homeless Veterans program initiatives. VA will use the CHALENG findings to evaluate the needs assessment. This report is available electronically at www.va.gov/homeless/page.cfm?pg=17.

Services Program Requirements

The Supportive Services plan must address needs identified in the needs assessment and include a comprehensive, realistic strategy to foster self-sufficiency in the resident veterans. The plan must:

- Include an employment program designed to help the resident veterans attain long-term employment once they leave the facility. Residents must seek to obtain and maintain employment while living in the facility. Residents enrolled in remedial education or apprenticeship programs may meet this requirement by performing

regular chores at the facility that contribute to a reduction in operating expenses.

- Clearly identify how Resident Veterans will attain and transition to permanent housing.
- Identify which services will be provided on-site and off-site, as well as who will provide them.
- Include a realistic budget and a strategy for obtaining funding.
- Include a realistic staffing plan that identifies staff qualification requirements.
- Include an ongoing assessment in the form of a report to be delivered to VA on no less than an annual basis addressing the Supportive Services needed by the residents of the facility, the availability of the needed services and the Sponsor's ability to meet the goals, objectives, measures, and special needs of the Residents.
- The Sponsor, during the period of the loan, must have an active and aggressive outreach effort intended to ensure that homeless veterans are aware of the opportunity to obtain residency at the Multifamily Transitional Housing Facility and must make efforts to ensure that to the maximum extent feasible all beds are filled with Eligible Homeless Veterans. These efforts must include active liaison with the VA medical centers servicing the area and with state, local and private agencies and organizations providing services to Homeless Veterans.

The Supportive Services program may include the following services:

- Conducting outreach activities;
- Providing food, nutritional counseling, counseling, health care, mental health treatment, alcohol and other substance abuse services, and case management services;
- Establishing and operating child care services for dependents of Homeless Veterans;
- Providing supervision and security arrangements for the protection of residents of supportive housing and for Homeless Veterans using the housing or services;
- Providing assistance in obtaining permanent housing;
- Providing education, employment counseling, and job training;
- Establishing and operating an employment assistance program;
- Providing assistance in obtaining other federal, state and local assistance available for facility residents including mental health benefits, employment counseling, veterans' benefits, medical assistance, and income support assistance such as Supplemental Security Income benefits, Temporary Assistance to Needy Families, General Assistance, Food Stamps, etc.; and,

- Providing housing assistance, legal assistance, advocacy, transportation, and other services essential for achieving and maintaining independent living.

Inpatient acute hospital care does not qualify as a Supportive Service.

*Services Delivery
and Coordination*

The Sponsor may act as the Supportive Services coordinator if it has the experience and capacity to do so. Otherwise, the Sponsor must develop a partnership with a capable coordinator to carry out the supportive services program. The Supportive Services coordinator may provide the services directly or through agreements with other qualified service providers. The services coordinator should coordinate efforts with federal, state, local, private and other entities serving homeless persons in the planning and operation of Supportive Services. Such entities may include shelter transitional housing, health care, or social service providers; providers funded through federal initiatives; local planning coalitions or provider associations; or other programs relevant to the local community.

VA will evaluate the financial feasibility of proposed projects based in part on the financial criteria described in this section.

*Potential Funding
Sources*

Homeless Veteran housing facilities to be financed through the Program must include other funding sources. *Table 3*, shown below, lists potential sources of complementary development subsidies and operating subsidies. Many states have developed their own development and operating subsidy programs that may be used as well. In addition, one of the most effective ways a local or state government can help reduce development and long-term operating costs is to waive fees and taxes.

**Table 3: Example Potential Funding Sources To Be Used
in Conjunction with the Program**

Development Subsidies	
	Low Income Housing Tax Credits
	CDBG (Community Development Block Grant) funds
	HOME funds
	Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP)
	Specialized Local or State Housing Production Funds
	State or Local Fee Waivers
	Donations of Land, Development Services, Supplies, or Furnishings
Operating Subsidies	
	Section 8 (through the McKinney Program administered by HUD)
	State or Local Rental Assistance Programs
	State or Local Fee Waivers
	State or Local Tax Abatements

**Financial
Model
Viability**

VA will analyze the proposed financial model for the facility to be sure that it is reasonable and supported by information on income and expenses for similar facilities. The Sponsor must document any unique factors and all significant assumptions. VA will conduct an analysis of cash flow over the proposed loan term.

The proposed financial model must meet the following requirements:

- The uses budget must be adequate to implement the development program.
- When construction funds are requested, the facility construction cost must be reasonable and the construction budget realistic and cost-efficient, based on local norms. The construction budget must include adequate funding to address all identified and reasonably foreseeable environmental and geo-technical issues.
- The loan must have a DSCR of at least 1.10 and, preferably, greater than 1.15.
- Rents must be affordable to the target population equal to no more than 30 percent of the Residents gross income. Rents must meet one of the following criteria, as applicable:
 - Facilities with rent subsidies charge the minimum rent required by the subsidy program.
 - Facilities without rent subsidies charge rents that when combined with other sources of facility revenue allow the facility to cover operating costs and debt service. The Sponsor must demonstrate that such rents will be affordable to the intended residents.

- The operating budget must adequately cover costs to operate the property and the Supportive Services components and should be based on the specific requirements of the proposed facility. The Sponsor should support estimates with written documentation.

In addition, the project must meet the following reserve and insurance requirements:

*Reserve
Requirements*

- The project must have adequate reserves as described below. **VA reserves the right, in its sole discretion, to modify, eliminate, or waive any of these reserve requirements for the Program as a whole or with respect to individual Applicants/Sponsors.**
 - Operating Reserves – required to cover unexpected operating expenses and/or liquidity crunches. Sponsors will be required to build up operating reserves sufficient to cover a minimum of six months operating expenses. The required reserve levels will be calculated on an individual project basis, based on potential cash flow shortfalls. Operating reserve requirements will be dependent on loan characteristics, such as loan-to-value (“LTV”) and loan term.
 - Replacement / Capital Reserves – required to increase the probability that a Sponsor will have sufficient funds available for capital expenditures on the properties that are secured by the VA guaranteed loan. Reserve requirements will be approximately \$200 - 400 per unit but will be evaluated on a individual deal basis.
 - Lease-up Reserves – for construction and rehabilitation loans, a lease-up reserve account will be maintained until occupancy is sustained within the facility. In general the lease-up requirement will demand that reserves be sufficient to cover any projected interest and operating cash flow deficits during the construction and lease-up period. Reserve requirements will vary according to individual project construction/rehabilitation loan terms and the specific development needs during the underwriting phase.

*Insurance
Requirements*

Sponsors must maintain adequate insurance to protect against financial loss due to property damage, principal/employee dishonesty or error, and any personal injuries that may occur on the property. A Sponsor must have:

- Hazard Insurance
Hazard insurance protects against all risks of physical loss or damage including losses caused by fire, windstorms, terrorism (Terrorism Risk Insurance Act or "TRIA") and other common insurable hazards, usually excluding earthquake and flood

coverage. Additional provisions include building ordinance or law coverage. Policies must be written on a per occurrence basis.

The amount of hazard insurance that will be required under the Program will be based on the aggregate value of the loan guarantee amount and the value of improvements made to the property (or the value of a newly constructed property). The insurance amount must be the higher of the loan guarantee amount or the replacement value of the improvements at the property.

Coverage is required for loss of rental income equal to a minimum of 100 percent of anticipated rents. Loss recoveries are required to be on an actual loss sustained basis. The deductible is \$25,000 for replacement values of \$100 million or less, or the lesser of \$100,000 or one percent of coverage for replacement values of \$100 million.

- Liability Insurance

Liability insurance policies are required for bodily injury, property damage, and personal injury and must be written on a per occurrence basis. Liability insurance is required in the following amounts:

- o In properties that are equipped with elevators, are less than three stories high, and have mortgages of less than \$3 million, the coverage limit is \$3 million per occurrence and \$6 million general aggregate
- o In properties that are equipped with elevators, are greater than three stories high, and have mortgages greater than \$3 million, the coverage limit is \$5 million per occurrence and \$7 million general aggregate
- o For all other properties, the coverage limit is \$1million per occurrence and \$2 million general aggregate.

The deductible is the lesser of \$10,000 or 1% of coverage.

- Umbrella Liability Insurance

Umbrella liability provides coverage in excess of the scheduled underlying liability policies, and will drop-down to provide insurance in the event of exhaustion or reduction in the underlying policies. Coverage is required in amount of \$5 million per occurrence and aggregate and will include terms and conditions at least as broad as the scheduled underlying policy terms and conditions.

Depending on the location, legal jurisdiction, and characteristics of the facility (i.e., flood zone, earthquake zone), a Sponsor may also be required to purchase:

- Builders Risk Insurance

The Sponsor must provide coverage for additions, alterations, or repairs made to the property at the time of any construction, either by extension of its property damage policy or with a separate builder's risk insurance policy.

Coverage must include fire, extended coverage, vandalism, and malicious mischief insurance in an amount equal to 100 percent of the completed value of the building(s).

- Surety Bond Insurance

Prior to the start of construction, the underwriter should confirm that the Sponsor/Borrower and/or the developer and contractor have obtained adequate Insurance on the project during construction. The Sponsor/Borrower must purchase or require the Developer to purchase a Surety Bond for the project. The Surety Bond should at a minimum include a performance bond and the amount of the bond should equal the total amount of the construction contract or the cost to complete the project.

- Flood Insurance

Flood insurance reimburses damage to property caused by storms, melting snow, hurricanes and water backup. Flood insurance premiums are determined by several factors, including the amount of coverage purchased, the deductible, the location, age, occupancy, and type of building. Flood insurance will be required if the premises is located in a Special Flood Hazard Area (Zones A and V) as designated by the Federal Emergency Management Agency ("FEMA").

The amount of flood insurance coverage required under the Program must equal to 100 percent of the replacement value (actual cash value) of the property or the maximum insurance available under the appropriate National Flood Insurance Administration program. Unless a higher minimum amount is required by FEMA or other law, the maximum deductible clause should be no more than \$5,000 per building.

- Sinkhole and Earthquake Insurance

Sinkhole insurance provides coverage for loss or damage caused by the sudden sinking or collapse of land, which is due to the action of subsurface water on soft rock formations. Earthquake insurance provides coverage for property damage caused by an earthquake or volcanic eruption. The amount of earthquake and sinkhole insurance coverage required under the Program must be equal to 100 percent of the replacement value of the property, and the policy should have a maximum deductible of five percent of the loan amount or the lowest deductible available in the area in

which the premises is located. Earthquake Insurance is generally included in property coverage unless the property is located in a known seismic area (for example: CA, HI, and WA). In these instances separate Earthquake insurance would need to be acquired.

- Boiler and Machinery Insurance

Boiler and machinery insurance covers boilers, heating, ventilation, and air conditioning equipment against loss due to an accident that results in partial or complete replacement of an object. Boiler coverage is required if a steam boiler or other pressure-fired vessels are present on the Sponsor's property.

Coverage is required for loss of rental income equal to a minimum of 100 percent of anticipated rents. Loss recoveries are required to be on a replacement cost valuation basis.

The deductible on boiler and machinery insurance must not exceed \$5,000 and must provide direct damage coverage on steam objects with a limit of at least 25 percent of the 100 percent replacement cost of building and improvements, but in no event less than the aggregate replacement cost value of the equipment insured hereunder.

- Worker's Compensation and Employer's Liability Insurance

The Sponsor must have coverage that fulfills its obligations under the Worker's Compensation Act for statutory benefits, with minimum coverage of \$500,000 for employers' liability. All contractors and subcontractors to the Sponsor must procure and maintain similar levels of insurance.

- Employee Fidelity Bond / Employee Crime Insurance

An employee fidelity bond or employee crime insurance provides coverage or a loss of Sponsor's money or securities by theft or fraud of its employees. Coverage is required in a minimum amount of \$1 million for each claim.

- Rent Loss Insurance

Rent loss insurance provides coverage in the event of a major insurance loss or catastrophe at the project causing the Borrower to be unable to charge rents.

Each insurance carrier must be rated A/VIII or better in AM Best Ratings. On all insurance policies, the Borrower must be listed as the insured, with VA listed as additional insured. Blanket policies may be used if:

- The blanket policy provides coverage that is equal to or better than coverage under a single policy

- The blanket policy lists the property in an identifiable manner (e.g., street address is listed)
- The blanket policy includes a per project / per location aggregate limit of insurance endorsement

In documenting insurance coverage, a Sponsor will be required to provide, within 90 days of closing, original policies, certified copies of policies, or the declaration page, as well as evidence that one full year's premium payments have been paid. The Servicer must monitor that the Sponsor has obtained adequate coverage according to the guidelines described in Chapter 8.

All policies are to be specifically endorsed to provide written notification to VA or its designated agent within 45 days of an event of cancellation, non-renewal, or material change to be delivered by overnight carrier.

Non-Residential Space

Facilities may provide space for neighborhood retail services or job training programs. VA does not place a square footage limit on non-residential space. VA will review proposals that include such space for their overall viability, taking into account such factors as the market for the proposed space, the contribution of the space to project revenues, and the impact of the space on the Facility's services program. The Sponsor will need to provide copies of all leases or proposed leases as well as financial information on the tenant.

Developer Fee and Disbursement Limits Policy Proposal

A reasonable Developer Fee is an allowable use of Program proceeds except in the case of refinancing loans. When Program Funds will be used to pay a Developer Fee, the fee may not exceed 12 percent of total development costs, not including the Developer Fee, hard or soft cost contingencies, tax credit syndication-related costs, and operating and escrow reserve accounts. For Program refinancing loans, proceeds may not be used to fund a developer fee. Development consultant fees are included in the developer fee cap.

VA reserves the right to limit annual distributions of cash flow to the Sponsor to serve the best interests of the residents, the facility, and the government. When determining whether to place limits on annual distributions to the Sponsor, VA will take into consideration the amount of any Developer Fee the Sponsor has or will receive.

Developer Fee Disbursement

Disbursement of the Developer Fee must be structured to provide an incentive to the Developer to complete and lease up the facility as planned. VA recommends that disbursement be tied to completion of specific project milestones outlined at loan closing. No more than 80% of the total fee should be disbursed prior to completion of construction. VA will require a 10% retainer be held by the lender until after the loan stabilization period (i.e. stabilized occupancy of greater than or equal to 85 percent for at least ninety days).

*Market
Demand*

There must be a market for the proposed project. A comprehensive market study conducted by a disinterested third party must demonstrate that the proposed project meets identified needs of homeless veterans and can be readily absorbed by existing demand in the local area.

*Appraisal
Requirements*

VA requires an Appraisal of the property that meets the requirements contained in the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 and the appropriate guidelines contained in Standards 1 and 2 of the Uniform Standards of Professional Appraisal Practices (USAP). All Appraisals must include consideration of the effect of any potential contamination from hazardous wastes or from the release of nearby hazardous substances and petroleum products on the security value of the facility. The value of the VA guarantee must be supported by the Appraisal. An Applicant may submit an Appraisal that was completed within six months of the application. However, at its sole discretion, VA may choose to reject the Appraisal and commission a new one. In addition, VA may order an Appraisal, at the Applicant's expense, if one is not submitted.

The Appraiser must be MAI certified and unrelated to the Sponsor and must be reviewed and approved by VA or its underwriter prior to the commissioning of the report. The Appraisal should contain the three standard approaches to value that upon completion, support the proposed debt being applied for by the Applicant. The report must include the useful life of the building without renovations, as well as an opinion by the appraiser that upon expiration of the loan term, the project will have a 25% useful life expectancy remaining. For example, if the proposed loan is seeking a 40-year loan term, then the useful life of the building must be determined to be at least 53.5 years.

The Appraisal must contain the following certification:

"I certify that to the best of my knowledge and belief:

- a. The statements of fact contained in this report are true and correct.
- b. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions.
- c. I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- d. My compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

- e. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- f. I have made a personal inspection of the property that is the subject of this report.
- g. No one provided significant professional assistance to the appraisers signing this report, except for the Architectural and Engineering, and Cost Estimation professionals signing this document. These professionals' estimations of the subject property's dimensions and "hard" replacement costs have been relied upon by the Appraiser and Review Appraiser."

For Construction Loans, the VA will require the Project be reappraised after completion of construction to determine that the project does in fact appraise in accordance with underwriting assumptions. An update of the initial Appraisal would satisfy this requirement.

*Commitment of
Non-VA
Funding*

The Sponsor may obtain a VA Loan Guarantee of up to 80 percent of project costs, depending on the financial feasibility of the proposed project to carry this amount of debt. The Sponsor must supplement the Program guarantee with funding and/or the substantial provision of property or services by a state or local government or a nongovernmental entity. Eligible support by a state or local government or a nongovernmental entity includes but is not limited to:

- Commitment of development funds including but not limited to Low-Income Housing Tax Credits, CDBG, HOME, and the Federal Home Loan Bank's Affordable Housing Program funds.
- Commitment of rent or operating subsidies.
- Commitment of supportive services funding.
- Donations that reduce total development costs, including land, leasehold interests, labor, buildings, infrastructure or site improvements, services, furnishings, and other items included in the development budget, or the provision of these at below-market cost.
- Donation of operating services or the provision of these at below-market cost.
- Donation of supportive services or the provision of these at below-market cost.
- Significant local or state government fee or tax waivers.

Where a proposed project intends to utilize tax credits, the underwriter must obtain a copy of the letter of commitment from the tax credit investor or syndicator. The letter must outline the amount paid by the

investor/syndicator, the pay in schedule and any other information the underwriter deems necessary to document sufficient equity in the transaction.

These requirements notwithstanding, the Sponsor is required to have a minimum equity stake of five percent (5%) of the total development costs in the project.

Project Site and Design Requirements

Project site and design characteristics such as location, size, amenities, proximity to transportation and services, and environmental conditions are important to the success of a facility. They affect a property's marketability, financial success and effectiveness in reaching homeless veterans. VA will review project site and design characteristics based on the following standards.

Site Control

The Applicant must have site control. The Applicant must provide evidence that it has and will maintain control of the facility for which the VA guarantee is requested at loan closing and through the life of the loan. Acceptable forms of site control may be any one of the following:

- Deed or other proof of ownership
- Executed contract of sale
- Executed capital lease agreement
- Executed option to purchase or lease

Site Standards

VA will review site plans for compliance with the following standards:

- **Applicable Codes:** All multifamily housing projects must observe applicable Federal, State, and local laws, local ordinances, zoning requirements, and regulations on health and safety standards.
- **Grading and Drainage:** Soil and geological conditions must be suitable for the type of construction proposed. VA reserves the right to obtain an Engineering Report with supporting data to identify all pertinent subsurface conditions that could adversely affect the structure and show proposed solutions.
- **Utilities and Infrastructure:** The site must have utilities and infrastructure that are adequate for the needs of the facility and that meet all local requirements.
- **Environmental Issues:** The site must be free of hazardous environmental contaminants, such as asbestos. When such contaminants exist on the site, the Applicant must provide a remediation plan and budget to address them.
- **Size and Shape:** The site must be adequate for the proposed units as well as parking requirements and other proposed improvements.

- Undesirable Conditions: Sites should be located in areas with minimal exposure to:
 - Noise from nearby roads, airports, or factories
 - Pollution from nearby sources that create hazardous health conditions
 - Undesirable commercial enterprises, such as liquor stores

Facility Design

VA will review the facility design to determine that it:

- Adequately addresses environmental issues.
- Is appropriate given community standards, surrounding neighborhood, and site characteristics.
- Features on-grade landscaping, which addresses functional and aesthetic issues.
- Features secure, well-designed unit interiors.
- Features security and crime prevention measures, which may include but are not limited to strategically placed fencing, keyless entry systems, and security cameras.
- Accommodates resident privacy needs to the maximum extent feasible given the development program.
- Provides adequate space for the services program. The design must consider space needs for case management of residents, meeting and/or classroom space for service and program provision, and integrated community living space.
- Is consistent with building code.
- Is appropriate to the Program.
- Can be constructed for the construction budget identified in the application.

Access to Public Transportation and Other Services

The Project must provide ready access to transportation. The Applicant must demonstrate fulfillment of at least one of the following three criteria:

1. Facility is located within reasonable distance of public transportation such as a bus or subway stop.
2. Facility provides regular shuttle service to and from public transportation, either directly or through a partnership with a service provider.
3. In areas without adequate public transportation, the Sponsor must provide a plan for how residents will be able to meet their transportation needs and have ready access to services provided in the local community.

In addition, VA encourages the location of facilities near full-service grocery stores, recreation facilities, health services providers, religious institutions, and other institutions that will promote the Resident Veterans' transition to self-sufficiency.

**Compliance with
Federal Legal
Requirements**

VA will review applications for compliance with the Federal legal requirements described in Chapter 3 of this manual.

**Additional
Source
Selection
Criteria**

VA will have sole discretion to make guarantees under the Program. VA will use an evaluation process that is guided by the underwriting eligibility and feasibility parameters described in this chapter. At VA's discretion, additional source selection criteria may be imposed. During the pilot phase of the Program, the criteria may be different than what is noted in this chapter.

7 CONSTRUCTION LOAN SERVICING

CHAPTER 7: CONSTRUCTION LOAN SERVICING*Chapter 7 Highlights:*

1. *Combined Construction and Permanent Loans*
2. *Permanent Loans: Construction Monitoring*

Combined Construction and Permanent Loans

The Program offers prospective Applicants the opportunity to obtain financing with a VA guarantee for Combination Construction and Permanent or Permanent only financing of multifamily properties intended to house Eligible Homeless Veterans. This chapter will provide an overview of the responsibilities of VA, the Servicer, and the Sponsor during the construction period. The chapter will also provide the minimum requirements for closing on a Permanent Loan upon completion of construction. The level of monitoring of a Construction Loan is very intensive because this phase of development is considered to be particularly risky. During the construction phase, there are many variables that impact the Sponsor's ability to manage the project. The Sponsor must meet challenges specific to the construction project. Among these challenges are managing budgets and timeframes.

Construction Loan Servicing

The most effective way to mitigate risk during the construction phase is to have a strong underwriting process in place. In addition, the establishment and implementation of sound construction servicing policies and procedures is critical. The Servicing Agreement, executed prior to loan closing, will detail VA's expectations of the Servicer. These procedures are designed to contribute to the successful construction/rehabilitation of the building(s) according to the development schedule and the construction budget. The Servicer will monitor the progress of the construction and inspect the property on a monthly basis to make sure that Sponsor is using the loan proceeds in accordance with the note purchase agreement and promissory note as well as building plans, specifications and contract documents. In addition, the Servicer is responsible for recommending disbursement of funds for project costs per the construction agreement. The construction agreement is a legal document between the Sponsor and the General Contractor and or the Construction Company.

Initial Review

The initial review occurs one to two months before the loan settlement date. This review differs from the underwriting in that it is a technical review of key aspects of project construction. Involvement by the Servicer is important at this stage to help the underwriting and loan settlement team in reviewing documents and preparing for the start of construction.

Construction Documents

In order to properly administer the Construction Loan throughout the construction period, the Servicer will obtain from the Sponsor via VA the following documents:

- Loan underwriting package
- Building plans and specifications
- Cost estimates and construction budget on an AIA form.
- Survey
- Soils Test
- Environmental Reports Phases I & II
- Construction Schedule
- Construction Agreement, Note Purchase Agreement and Promissory Note
- Copy of the Appraisal
- Building Permits if available
- Preliminary title search and title insurance
- Assigned commercial tenant leases or letter(s) of intent to lease
- Permanent loan commitment
- Inspection report(s)
- Disbursement authorizations
- Insurance policies and all endorsements
- Performance/payment bond
- Lien waivers
- Verification of Pre-pays if applicable
- Completion bond

Initial Construction Analyst Report

A construction analyst on the Servicer's staff prepares an initial construction report and ongoing draw request inspections. The Analyst must have sufficient expertise to determine compliance with plans and specifications. The report documents the Analyst's assessment of all final plans and specifications, itemized cost breakdowns and construction contracts. The Initial construction analyst report (the report) must be distributed to VA prior to the initial release of funds.

The construction analyst must review the following documents, which must be provided to the analyst by the Borrower via VA and at the expense of the Borrower:

- The American Land Title Association ("ALTA") Survey is a standardized survey that documents the exact measurements, boundaries, area and contours of a parcel of real property (i.e., the land). The survey graphically shows all easements, encroachments, and restrictions on the property that impact the title. For example, most properties have utility easements that allow utility companies to lay their lines on the property.

An encroachment exists when something, for example, a fence, overlaps onto the property. A restriction on the use of the property may result from an easement on the property. The analyst will compare the ALTA Survey with the architectural documents to check for compliance with all restrictions, easements, and boundaries. The analyst will confirm that the proposed construction meets local zoning restrictions for setbacks, etc. In addition, the survey will also show whether the property is located in a flood zone.

- The Soils Report is a report prepared by a civil engineer based on soil borings and excavation. This report will detail the physical nature of the soil, specifically its expansiveness. Soil that is too expansive can compact when a structure is built on it, leading to structural problems. The analyst will review the soils report to verify that recommendations of the report are incorporated into the building design and the construction contract.
- The Environmental Report is a report prepared by an environmental expert, which assesses the environmental risks associated with the property. The report includes an investigation of the historical use of the property, an inspection of the site for evidence of lead-based paint, asbestos-containing materials, or underground storage tanks, and a sampling of soils and any existing materials. The analyst will review the report to assess the methodology and the general environmental risk associated with the property. A Phase I Environmental report identifies the environmental risks and outlines a plan for remediation of the risks. A Phase II Environmental report assesses the remediation, if necessary. The analyst will review both reports to determine if the Borrower has properly remediated the environmental risks.
- The Owner/Architect Agreement establishes the responsibilities for the architect in both the design of the building and the ongoing support during the construction phase. The agreement also establishes a price for the architect's services. The analyst will review this agreement and make an evaluation of the cost and scope of the work.
- The Owner/Contractor Agreement contains firm construction costs and provisions for change order approval and retainage percentage. A change order is a modification to the original plan of construction by a building owner or General Contractor. Retainage is the amount of payments withheld from contractors or subcontractors per construction agreement to incentivize final and satisfactory completion of a job. The agreement outlines the performance responsibilities of each party and generally contains the contractor's certification that plans and specifications conform to all applicable laws and are approved by the appropriate parties. The agreement also lists remedies for resolving disputes during the construction period. The analyst reviews the agreement to understand the legal relationship between the parties and to evaluate the reasonableness of the cost. In addition, the analyst reviews

the hard costs and comments as to whether the construction budget and contingency budget are adequate.

- The Owner/Engineer Agreement(s) establishes the responsibilities for the engineer (e.g., inspecting major construction draws) in the ongoing support during the construction phase. The agreement also establishes a price for the engineer's services. The analyst will review this agreement and evaluate the cost and scope of the work.
- The Project Schedule establishes the timing of major phases of building construction. The analyst reviews the schedule for reasonableness in the context of all other construction documents. The report should include an analysis as to the feasibility of the projected progress schedule outlined by the Developer. The analyst must identify any complex construction issues that could impact the project schedule.
- The Hard Cost Breakdown is a listing of the costs associated with land, labor, and improvements. The analyst will review each line item cost for reasonableness compared with standardized expenses in the local market for similar construction.
- The Building Permit(s) document the approval of the local government authority to construct the building(s). The analyst will review the permits for compliance with local building code and any specific regulations in the permit(s).
- The Evidence of Zoning Approval is a letter or approval notification from the local government department of zoning or city council that shows that the proposed building(s) are qualified for their intended use. The analyst will verify that the project complies with the local zoning requirements.
- The Builder's Risk Insurance Statement lists the builder's maximum insurance. The analyst will review the statement for compliance with Program requirements. The Servicer must make sure that the project is at all times protected from liability and various hazards through builder's risk and hazard insurance protection.
- The Utility Service Availability Statements are letters from local utility providers showing availability of the necessary utilities upon completion of the project. The analyst will review the statements for timing and the proper capacity of the utility service to the building(s).
- The Architectural Drawings, also known as project plans, are the graphic instructions guiding the construction of the building(s). The analyst reviews these documents to make certain that the proposed facility's design utilizes accepted architectural and engineering practices and conforms to applicable federal, state and local building codes.

- The Project Specifications are written instructions concerning project requirements. Together with the architectural drawings, the specifications provide the general contractor with the information needed to construct the building(s). The specifications detail the type of materials that may be used, such as the type and size of lumber. The analyst will review the specifications to evaluate whether the quality and the cost of the proposed material are appropriate for the proposed building use.

Due to each project's unique design and varying jurisdictional requirements, the analyst may require other construction documents in conjunction with the list above. The analyst will produce the report for VA. The report will contain a detailed review of construction scope, schedule, and costs.

The analyst may have a number of questions to be answered or requirements to be fulfilled before a final construction report is issued. The Borrower must work to satisfy the analyst's questions as quickly as possible. Closing on the Construction Loan will not take place until issuance of a clean construction report indicating that all outstanding issues have been resolved.

Once VA, based on the recommendation of the analyst, is satisfied with the construction documents, the loan can proceed to settlement.

Loan Settlement

VA will distribute drafts of the note purchase agreement, promissory note, the reimbursement and Construction Loan agreement and the deed of trust in addition to the balance of the loan documents upon completion of the Initial construction analyst report. The Borrower, FFB, and VA must agree to all of the loan documents. Once all parties have agreed upon the necessary documentation, VA will set a closing date. Closing may occur in person or through the mail. On or about the closing date, all parties will sign the loan documents. VA provides executed copies of the loan documents to the Servicer.

Pre-Construction Conference

After the loan settlement, and prior to the start of construction, a pre-construction conference must be held on the site or at another specified location (if the site is undeveloped land). The Servicer will notify VA of the meeting so that a VA representative may attend. The General Contractor, the Sponsor, the Architect, and the Construction Analyst are required to attend. The construction analyst will record the minutes of the conference and provide them to VA within one week of the meeting date.

The agenda for the meeting includes:

- √ Discussing the findings of the Initial construction analyst report
- √ Emphasizing Davis-Bacon wage requirements applicable to the General Contractor and Borrower

- √ Reviewing construction draw schedule and construction project schedule
- √ Reviewing scope of construction
- √ Reviewing procedures for draw requests
- √ Fund control
- √ Choosing date of the first construction progress meeting
- √ Discussing any environmental issues and mitigation measures

Processing Draw Requests

A draw is a periodic advance of Construction Loan funds. The Sponsor and the Servicer will establish a draw schedule prior to the Construction Loan settlement to set expectations with regard to the anticipated work progress and loan disbursement schedule. Draw requests may occur as frequently as monthly. The Servicer's main tasks are to prevent overpayment and ensure that liens are paid and released. Draw requests must not be made until the funds are actually needed. Thus, a request for funds should only be made after the work has been inspected and found to be satisfactory.

Disbursements

Loan disbursements are generally prearranged and are based upon either a standard payment plan that calls for fixed payments at the end of specified stages of construction or a progress payment plan, which is usually based on monthly disbursements up to a stated percentage of value with a stated percentage held back until the project is completed. Under each plan, a percentage of the loan is usually retained until a notice of completion has been filed and the stipulated period under which liens may be filed has lapsed. Disbursements must be properly authorized and supported by the inspection report. Receipted bills of work performed and materials furnished, and lien waivers should be obtained from the General Contractor at the time construction is completed and before final disbursement. The Servicer compares the draw with cost estimates to ensure that budgets are met or that cost overruns are going to be covered by other financing sources or Borrower equity. The Servicer will recommend funding up to the agreed upon budgeted line item amount but will not fund more than the value of the construction completed to date. The Servicer requires that the lesser of five percent (5%) of the total construction hard costs or \$50,000 will be held for the final draw. Draw requests will be processed within ten business days of receipt by the loan servicer.

FFB will release construction funds to the person(s) to whom the Sponsor is obligated to make payment or to a title company, if required by the state, on a draw-by-draw basis and according to the disbursement procedures described later in this chapter.

Interest During Construction

The interest on the FFB loan during the construction period can be capitalized on the outstanding loan balance, which is also called the unpaid principal balance. The Borrower would not make a principal or interest payment during the construction period in this instance. The construction budget should include a provision for payment of construction interest, which is calculated based on the expected interest rate and the expected loan principal balance outstanding during the construction period. The Servicer will analyze the impact of capitalized interest to determine whether the property's operations will be able to fund payments on the loan amount plus the capitalized interest balance once the loan converts to permanent status. In the event that there is a funding shortage, the Borrower is required to secure additional funds to cover the shortfall.

Draw meetings

The General Contractor, the Sponsor and the analyst will meet monthly to review the status of construction. At the monthly draw meeting, they will discuss the current status of the project, activities completed since the last draw, activities in progress since the last meeting, and activities planned to begin during the next month. The three parties will review the construction budget, monies disbursed in prior draws and monies being requested in the current draw. A routine part of the draw meeting is an inspection of the property to review the work for which payment is being requested. The meeting will also include a conversation about any challenges that the General Contractor is facing that may impact timing or cost of construction. It is at this point that new change orders may be discussed.

Form of draw

The General Contractor submits a payment request to the Sponsor. The payment requisition typically occurs at the monthly draw meeting for work performed since the previous draw. The Sponsor will submit to the Loan Servicer, the requisition on the standardized AIA form (see Appendix B) with supporting documentation including but not limited to lien waivers and receipts as well as the advance request identified under the purchase note agreement. Detailed invoices and or lien waivers must support all expenditures. The draw request will be attached to the advance request form and submitted to VA for approval. Once VA has approved the draw, the advance request form will be submitted to FFB for disbursement. Disbursement of funds will be made directly to the Sponsor's contractor.

Inspection

Prior to the approval/payment of a draw, the Servicer's construction analyst must prepare a site inspection report, which addresses whether:

- Work completed to date is in compliance with the final plans and specifications and standards of good workmanship, or any material deviations are noted.
- Material on site appears to be stored and/or adequately protected, based on the observations of the analyst.

- Construction is on schedule in accordance with the construction schedule provided by the Sponsor (construction schedule must be attached to the report), or if delays exist or are anticipated, a revised estimate of construction completion.
- Balance of remaining hard cost funds is adequate to complete the project. Where contingency funds have been utilized, the report must determine whether the remaining contingency budget is adequate to complete the construction.

The site inspection report prepared by the analyst should also include:

- Comments as to submitted change orders and their effect, if any, on the project budget and schedule. The report should specifically note any change orders that are \$10,000 individually or \$25,000 in aggregate or greater, or that materially affect the design or quality of construction, the marketability of the project, health/safety issues or construction quality (these change orders require VA's prior written approval).
- Color photos, mounted and labeled indicating the general status of the construction and/or specific areas of concern identified by test reports or the Analyst.
- Observation(s) by the analyst that he/she believes will cause undue delay or otherwise might adversely affect VA's interest in the project.
- Initiation of lease-up and the percentage of lease-up completed.

Draw Processing

The Servicer will have a staff member assigned to review and recommend approval of draw requests. This staff member functions independently of the construction analyst to create a separation of duties between the physical inspection of the property and the authorization to disburse funds.

The staff member reviews the draw package, which includes the following documents and certifications and offers a recommendation of whether to approve the draw or not:

- Draw request letter updating the Servicer on the progress of construction
- Architect's Certification of project status on an American Institute of Architects (AIA) Form G702. A list of local distributors that sell AIA contract documents, including Form G702, can be found at: <http://www.aia.org/documents/distributors03.pdf>.
- VA Draw Request Form (Appendix B)
- Advance Request (Exhibit A of the Program Financing Agreement)
- Mechanic's and Material Lien Waiver
- Invoices to support draw

- Title update
- Insurance update

During its review of the draw request, the Servicer will:

- Evaluate the percentage of project completion versus the percentage of funds expended.
- Determine if sufficient funds are available to complete the construction.
- Conclude whether the draw is on schedule for completion according to the project plan.
- Monitor construction disbursements to maintain a suitable ratio of the value of the outstanding disbursements to the value of land plus improvements.
- Compare the current draw with original cost estimates and previous disbursements.
- Prepare the advance request approval notice for VA (Required under the program financing agreement)

Once the Sponsor has submitted the correct documentation to the Servicer, and the Servicer has reviewed and cleared the package, the servicer will provide a recommendation to VA on whether to disburse funds and for what amount. The Servicer must process complete draw requests within five business days of a complete package. The Servicer will submit the draw package to VA for approval including the advance request form executed by the Borrower. The VA will have two business days to review and approve the draw request before submitting it to FFB. FFB will advance funds within three business days of receipt. The Servicer will withhold disbursement approval if the work is not performed in accordance with approved specifications. VA will notify FFB in writing that it has approved the draw request. VA will copy the Servicer on the approved disbursement. FFB will make advances to the contractor to whom the Sponsor is obligated to make the payments, or the title company if required by the state.

FFB will wire the funds to the person(s) to whom the Sponsor is obligated to make payments within three business days of the notification of VA's approval. If the Sponsor has used its own working capital to pay for expenditures at the property, FFB will reimburse the Sponsor directly.

The Servicer must engage a minimally rated (see table below) title company to update the title to check for any newly recorded liens, which may arise from adverse judgments or mechanic's liens.

<i>Rating Agency</i>	<i>Rating</i>
Demotech, Inc.	Financial Stability Rating of "S" or better or Statutory Accounting Rating of "C" or better
Duff and Phelps Credit Rating Company	BBB or better
LACE Financial Corporation	C or better
Moody's Investors Service	BAA or better
Standard and Poor's, Inc.	BBB or better

If any liens are recorded on the title, an amount of funds equal to the lien amount will be withheld until the borrower submits a lien waiver to the Servicer. This step is taken in order to protect the first mortgage position of the Construction Loan.

Change Orders

Construction changes that occur after the construction contract is executed, and that affect design, costs, or schedule must be documented as a contract change order. The change order must disclose the increase in cost and time, and include a description of the need for the change order. The Sponsor, project architect, and general contractor must sign all proposed change orders. A change order form is provided in Appendix C. The change order must be submitted to the Servicer for an assessment of the change order and a decision regarding release of funds. Approval of the change order is subject to a demonstrated need for the change and the availability of sufficient construction contingency funds in the development budget. All change orders in excess of \$10,000 individually or \$25,000 in aggregate must be reviewed and approved by VA.

Funds Disbursement

FFB will only disburse funds that are supported by VA approved disbursement requests. Each draw will be assigned its own interest rate. The rate for each draw could increase or decrease from earlier draws based on market conditions. For a fee, the interest rate may be capped at the Sponsor's request during the negotiation of the Construction Loan. The following is an example of an interest calculation for the first six draws of an example Construction Loan.

Example

The example below shows the first six construction draws, which total \$3,380,000.

The interest of \$67,196.33 will be added to the loan balance.

TABLE 4: Example of Construction Draws

Draw #	Principal Balance	Interest Rate	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Capitalized Interest
1	1,000,000	6.000%	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	\$5,000.00	
2	500,000	6.125%	\$ -	\$2,552.08	\$2,552.08	\$2,552.08	\$2,552.08	\$2,552.08	
3	500,000	6.125%	\$ -	\$ -	\$2,552.08	\$2,552.08	\$2,552.08	\$2,552.08	
4	450,000	6.000%	\$ -	\$ -	\$ -	\$2,250.00	2,250.00	2,250.00	
5	535,000	6.125%	\$ -	\$ -	\$ -	\$ -	2,730.73	2,730.73	
6	395,000	6.125%	\$ -	\$ -	\$ -	\$ -	\$ -	2,016.15	
	3,380,000		\$5,000.00	\$7,552.08	\$7,552.08	\$7,552.08	\$7,552.08	\$7,552.08	\$67,196.33

Fund Control

Because the VA Loan will be the senior lien on the asset but not the only source of financing for the project, it is highly likely that the VA funds will not be drawn on until the project construction is well underway. For that reason, VA reserves the right to maintain fund control for the entire project or dual track fund control under certain circumstances to ensure that the VA funds get incorporated into the project at the appropriate time and are sufficient to complete the project.

Sponsor Reporting Requirements

The Sponsor is responsible for providing the Servicer with the applicable reporting information as outlined in Chapter 8.

Loan Conversion

Loan conversion is the date the promissory note converts from construction status to permanent status. There are a number of conditions to be met prior to loan conversion:

- Certificate of Completion: The construction must be completed in accordance with the construction agreement. The certificate of completion is a document issued by the architect stating that construction is completed in accordance with the construction agreement, approved plans, and specifications.
 - The Servicer must confirm that all improvements on the property are complete (including all amenities, landscaping, signage, parking, and the like, except for minor outstanding and weather-sensitive items for which sufficient funds will be reserved in a Completion/Repair reserve fund):

1. In a good and workmanlike manner and substantially in accordance with the approved plans and specifications;
 2. On a lien-free basis; and
 3. In compliance with all applicable requirements of all governmental authorities having jurisdiction over the Property, including, without limitation, all applicable laws, building codes, zoning requirements, subdivision requirements, fire and safety laws, Americans with Disabilities Act (ADA) requirements, and design and construction requirements established pursuant to the Fair Housing Act, as amended.
- The Consulting Architect must conduct a final inspection of the property and certify the property's completion in accordance with this Section. The Servicer's file, which shall be made available to VA if Sponsor's requested, must contain the certificates and reports of the Borrower's architect, the consulting architect, and other project consultants to establish completion of the improvements in accordance with the requirements of this program manual.
 - Evidence of completion should include:
 1. Availability of all public utilities necessary for the operation of the Property;
 2. True and correct copies of each unconditional certificate of occupancy for all portions of the Property for which such a certificate is required (or the local equivalent of a certificate of occupancy) issued by the governmental authority empowered to exercise jurisdiction over the Property and to properly issue such certificates or, if certificates of occupancy are not required by local law, evidence that the Property has passed all inspections and received all approvals that are conditions precedent to occupancy of all parts of the improvements;
 3. True and correct copies of all operating permits and licenses for the Property; and
 4. Certificates from the consulting architect and any other project consultants, including the Sponsor's Architect, in form and substance acceptable to the Servicer and VA, in its discretion, stating that the improvements have been completed

substantially in accordance with the final plans and specifications.

- Certificates of Occupancy: The construction analyst and the local jurisdiction must approve the building as ready for occupancy. Certificates of occupancy are documents issued by the local municipalities that certify a newly constructed or significantly rehabilitated building as ready for occupancy by tenants.
- ▶ Occupancy Requirements: The property must have a minimum physical occupancy of 85 percent as measured as of the last day of the month and an economic occupancy at a minimum level of 85 percent for 90 consecutive days at the proforma rents in order to achieve Final Closing. The Sponsor must provide rent rolls to substantiate its analysis. In the event the project fails to achieve the occupancy requirement, the Sponsor may establish a lease-up reserve. The lease-up reserve will be a percentage of the appraised value of the project or the total development cost, whichever is greater. This reserve is project specific and is sized according to specific development needs during the underwriting phase. If tax credits are used in conjunction with the VA guarantee, the Sponsor must meet any occupancy requirements in the tax credit partnership agreement before VA will issue the permanent guarantee.
- Financial Requirements:
 - A Certified Public Accountant must certify that all costs expended for the development of the project were the actual costs. This entails itemized verification of all costs associated with construction and development of the property. If the cost certification includes any anticipated, but unpaid costs, the Servicer must withhold those amounts until the costs are actually incurred. The purpose of this certification is to confirm that the property is meeting the requirements of the Program.
 - The property must exhibit a DSCR of 1.10 for three consecutive months in order to achieve final closing.
 - The Servicer must compare the pro forma and actual operating expenses and make a determination if the property's annualized expenses match the pro forma.
- Continued Compliance with VA Eligibility and Underwriting Standards: The Sponsor under the Permanent Loan must remain unchanged and remain eligible.
- No Borrower Delinquency: The Sponsor's payment on the Construction Loan must be current. In addition, the Sponsor must not have been delinquent during the previous 12 months, and the Sponsor must not otherwise be delinquent under its Construction

Loan. VA may use its discretion in evaluating compliance with conversion requirements.

- Equity Contributions: The Servicer must obtain a certificate from the Sponsor, or other evidence satisfactory to VA, confirming that all funds reflected on the Sponsor's sources and uses of funds statement, including but not limited to all equity contributions to the Sponsor required to be paid in as of the time of permanent loan, have been received by the Sponsor and have been properly invested in the property as of the time of permanent loan.
- Certification of Conversion Questionnaire by Servicer (see Appendix D)

The timeline below provides a general guide to the responsibilities of the Servicer in the construction to permanent status conversion process. It does not replace or amend any requirements contained in this program manual and/or other contractual agreements established between the Servicer and VA.

SCHEDULE OF ACTIVITIES	Responsible Party	PROCESS
<i>Construction Period</i>	Servicer	Servicer monitors the Construction Loan, lease-up status, evaluates inspections and change orders. The Servicer informs VA of any risk to the timeliness of conversion and delivery.
<i>90 days prior to Final Closing Date</i>	Servicer	Servicer provides VA with status of project development and anticipated conversion and delivery.
<i>60 days prior to Final Closing Date</i>	Servicer	Servicer provides status of development and extension request (if applicable).
<i>30 days prior to Loan Conversion Date</i>	Servicer	Servicer coordinates conversion with VA.
<i>No more than 20 and no less than 10 Business Days prior to Loan Conversion Date</i>	Servicer and VA	If there are any underwriting conditions that require submission of evidence of compliance, the Servicer must provide VA with such evidence during this time period. The Servicer must comply with certain requirements and submit documents required by VA.
<i>7 Business Days prior to Loan Conversion Date</i>	Servicer and VA	Once VA has received appropriate evidence that any and all VA imposed conditions are met, VA will notify the Servicer.
<i>3 Business Days prior to Loan Conversion Date</i>	VA	VA determines whether all submitted documents are acceptable.
<i>Loan Conversion</i>	Servicer and VA	Conversion takes place.

Delinquency of Construction Loan

The Construction Loan will have a final repayment date, which will take into account the project timeline and the ability to start repaying a permanent loan that is amortizing. If, for some reason, the development has not met all the obligations necessary to become permanent by the final repayment date, the Sponsor will be delinquent on its obligations. VA will permit a construction period that does not exceed 24 months. The maximum loan term for this Program is 40 years.

The Servicer will evaluate a delinquent Construction Loan and determine the possible causes of construction delinquencies:

1. Work Stoppage

- Bankruptcy of General Contractor
- Bankruptcy of Sponsor
- Contract Dispute
- Weather Conditions

If a work stoppage occurs, the Servicer will evaluate the timing and duration of the work stoppage. The Servicer will make a determination of the impact of the stoppage on the completion of the project. The Servicer will assess whether the improvements in place may be damaged during the work stoppage.

2. Funding Shortage

- Unanticipated major expense(s) such as environmental expense or unanticipated and significant increase in materials cost.
- Delays leading to large construction interest expense.

The Sponsor is responsible for managing all aspects of the property's development. As challenges occur, the Sponsor must communicate with the Servicer.

3. Uncontrollable Causes

- Flood, Hurricane, Tornado, Earthquake, Terrorist Attack

In the case of a delinquency of the Construction Loan, VA has a number of workout options. Chapter 8 outlines the workout options available.

Permanent Loans: Construction Monitoring

In cases where VA is guaranteeing only the permanent loan, the following requirements must be agreed to by the Sponsor and the construction lender and met during the preceding construction or rehabilitation period:

- The Sponsor must have a consulting architect make at least monthly on-site inspections of the construction progress. The Sponsor may use the same third-party Architect for the initial and final plans and specifications reviews and the construction period inspections.
- The consulting architect must perform a final inspection to confirm that the Property has been constructed or rehabilitated in accordance with the approved plans and specifications. The architect is required to provide the Borrower with a certification of completion.
- The Sponsor must provide VA with construction period monitoring reports (see below) and the final certification of completion.

Reporting to VA

During the construction or rehabilitation period, the Sponsor must provide regular reports to VA's Servicer on the following schedule:

- Commencement of construction
- Every three months thereafter

The Sponsor is also required to report to the Servicer any delays, delinquencies, costs overruns, risks to timely completion, and other significant issues within 10 days of learning of them.

Construction period monitoring reports shall be submitted in the format shown in Appendix E, Construction Period Monitoring, to the Servicer. The Sponsor must report the construction start date and status of the following:

- Projected completion date - original and as revised
- Percentage of completion
- Amount of Construction Loan disbursed
- Cost to complete
- Reallocations during the period of reporting - any change orders greater than \$25,000
- Other items relevant to construction status
- Liens filed
- Lawsuits pending
- Leasing status

8 PERMANENT LOAN SERVICING

CHAPTER 8: PERMANENT LOAN SERVICING*Chapter 8 Highlights:*

1. *Performing Loan Servicing*
2. *Non-Performing Loan Servicing*
3. *Loan Accounting and Reporting*

**Performing
Loan
Servicing**

The Servicer performs many functions associated with the servicing of both performing and non-performing mortgages. This process begins with receipt of the first payment after loan settlement and continues through loan payoff or final liquidation of a foreclosed asset. Performing loan servicing consists of the management of credit, finance, and real estate issues that impact the loan. VA relies on the Servicer to service the loans according to the terms of the Servicing Agreement and the provisions of the applicable law and executed loan documents, as well as supplemental instructions from VA. The process for collecting, remitting, and reporting is documented in the Loan Accounting and Reporting section of this chapter. The procedures set forth in this Program Manual do not affect or modify the contractual arrangements among FFB, VA, and the Sponsor or between VA and the Servicer.

*Escrow
Administration***General
Requirements**

The Servicer collects monthly escrow monies from the Sponsor in advance to be used for the payment of all applicable real estate taxes, special assessments, insurance premiums, ground lease payments (if the Property is held in a leasehold estate), and other similar charges or obligations by their respective due dates. To the extent permitted by the mortgage and applicable law, the Servicer may start collecting escrows not previously required, such as a newly implemented tax. However, the Servicer may not discontinue collecting escrows without VA's prior written approval. The Servicer must deposit all Sponsor escrow payments into a custodial account as described in the Loan Accounting and Reporting section of this chapter.

**Escrow
Analysis****Timing**

The Servicer analyzes its escrow records for each loan at least annually after payment of the Sponsor's real estate taxes, insurance premiums, or other obligations for which the Sponsor is making monthly escrow payments. As part of its analysis, the Servicer assesses the adequacy of the Sponsor's current escrow funds and the Sponsor's current monthly escrow payment in relation to all anticipated upcoming charges and obligations that the Servicer will have to pay with escrowed funds.

Evaluation of escrow account balance

Generally, for each type of expense, the monthly payment collected from the Sponsor should be equal to one-twelfth of the actual or expected yearly charge. During the initial months of the mortgage term, however, a monthly amount exceeding one-twelfth of the annual charge for an item may be required of the Borrower if, at the time of the Sponsor's mortgage loan closing, fewer than 12 months remain before the full payment for such item is due and the Sponsor does not escrow the additional funds at the time of the closing.

a. Escrow Account Shortages

The Servicer's analysis may indicate that the tax, insurance, and other assessments escrow account does not have sufficient funds to pay all of the obligations on their respective due dates (i.e., a shortage exists). The Servicer will bill the Sponsor for the shortage or increase the Sponsor's monthly tax and insurance escrow payment accordingly to eliminate the shortage over a 12-month period.

b. Escrow Account Overages

The Servicer's analysis may indicate that the tax, insurance, and other assessments escrow account contains more funds than necessary to pay all of the obligations by their respective due dates (i.e., an overage exists). If the mortgage is not delinquent, the Servicer may reduce the Sponsor's monthly escrow payment accordingly or issue a lump sum refund at the Sponsor's request.

Escrow
Disbursements

The Servicer must:

- Pay all applicable real estate taxes, special assessments, insurance premiums, ground rents, and other charges or obligations that could become liens against the property before any applicable penalty or termination date.
- Maintain records that document payment of all taxes, ground rents, and assessments and other charges.
- Pay the cost of any penalty or late fee incurred as a result of its failure to effect timely payment of any of these items.

The Servicer may employ a tax service to perform these duties.

Servicing
Advances for
Taxes and
Insurance

The Servicer pays for taxes, assessments, insurance premiums, ground lease payments, and other items (other than principal and interest) owed or expended with respect to the property in the event that there are insufficient funds to pay for these items out of the escrow account. The payment comes from the Servicer's funds and is considered an advance pursuant to the Servicer's obligations to VA. The servicing advance protects VA's position but it does not release the Sponsor from its obligations under the mortgage. The Servicer must keep accurate records of any servicing advances that it makes with respect to each mortgage.

The Servicer must advance funds for the unpaid charge, such as taxes, and any applicable penalty unless the Sponsor is in bankruptcy. If the Servicer fails to advance funds for the unpaid charge, VA will hold the Servicer responsible for any penalties, interest, or related charges resulting from the Servicer's failure to make the advance. If the Sponsor is in bankruptcy, the Servicer will not make any advances in excess of escrow funds for escrow items without VA's prior consent.

The Servicer must attempt to work out an arrangement with the Sponsor for repayment of any advance and, if allowed by law and the loan documents, must begin to collect additional escrow monies for anticipated future payments.

If the Servicer cannot reach an agreement with the Sponsor for the Sponsor's repayment of the advanced amount or if the Sponsor fails to comply with the terms of any such arrangement or refuses to set up an escrow fund for future payments, the Servicer must promptly notify VA of all advances and must immediately recommend in writing a plan to protect the security interest.

Guidelines for
Administration of
Insurance, Repair,
and Replacement
Reserve Accounts

Insurance Escrow Administration

In addition to the collection of escrows for insurance and for the payment of insurance premiums, the Servicer is also responsible for determining that the insurance coverage meets the minimum requirements of the Program. At a minimum, properties must have hazard, liability, and umbrella liability insurance. Depending on their location and other circumstances, properties may also need builders risk, flood, sinkhole and earthquake, boiler and machinery, worker's compensation and employer's liability, and employee fidelity bond/employee crime insurance. The determination of need and coverage amounts will occur at the initial underwriting of the loan. Within 60 days of the premium payment, the Servicer will complete an evaluation of the insurance coverage using the form in Appendix F.

If the insurance coverage is insufficient or if the insurer does not meet the minimum standards established in the Program, the Servicer notifies the Sponsor to correct the deficiency immediately. The Sponsor must increase the coverage within seven days and provide proper evidence of the coverage amount, or the Servicer must obtain insurance coverage to meet the minimum Program requirements using a servicer advance. The Servicer will notify the Sponsor if the insurance company does not meet the minimum A.M. Best ratings standards outlined in Chapter 6. If the deficiency is with the insurer, the Sponsor has 30 days to correct the deficiency.

Repair Escrow Administration

A repair escrow is an escrow account established according to the guidelines in the Loan Accounting and Reporting section of this chapter that is funded from the loan proceeds to complete the repair of capital items. The need for a repair escrow is determined at the time of loan underwriting. The repair escrow is typically for the completion of a specific and major

capital item, such as boiler replacement. It is unlikely that there would be a repair escrow needed for a newly constructed building. However, unforeseen repair needs may be identified during rehabilitation of a property. It is possible that the original rehabilitation budget may not allocate funds to complete certain repairs. In addition, the final inspection before the Construction Loan converts to permanent status may indicate repair needs.

1. *Bid Evaluation*

VA relies on the Servicer to closely administer the completion of all work tasks included as part of a repair escrow. The Servicer should require that the Sponsor obtain multiple bids. The Servicer must review all estimates or contracts from contractors to assess whether the overall bid amount for repair is reasonable. In addition, the bid amount should cover the scope of the work to be completed. The Servicer will retain the estimates and contracts in the loan file.

2. *Disbursements*

The Servicer is responsible for authorizing disbursements from the repair escrow and for documenting that all repairs are completed satisfactorily. The review includes the comparison of invoices with the progress of work and with the repair agreement. The Servicer's approval must be documented in the loan file. The Servicer may disburse repair escrow reimbursements to the Sponsor or jointly to the Sponsor and the contractor/vendor using the following guidelines:

- a. Release of funds to Sponsor: The Sponsor has paid for and has submitted evidence of payment for all work included in the disbursement request. Evidence must be in the form of lien waivers, copies of canceled checks, receipts or invoices that are in the amount of the disbursement request and that are marked "paid."
- b. Joint Release of funds to the Sponsor and the contractor/vendor: The Sponsor has not submitted evidence that the work has been paid for in full. Therefore, the disbursement will be payable to both parties.

3. *Completion of Work*

The Servicer is responsible for confirming that the repairs are completed according to the repair agreement as part of the annual property inspection. The confirmation of the last draw will include a title update, at the mortgagor's expense, to determine that the property's title is free and clear of all mechanic or materialman's liens. The inspection report should include photographs of the completed repair work.

4. *Extensions*

If the repairs are not completed within the timeframe specified in the repair agreement, the Servicer must contact VA with a summary of the status of the repairs, the amount disbursed to date and the estimated time and cost to complete the work. The Servicer will also make a recommendation to VA as to whether an extension should be granted.

Replacement Reserve Administration

As part of the initial loan process, the capital needs assessment anticipates the estimated life of various capital improvements to the property and assigns a dollar amount to the cost to replace certain capital items, the average reserve amount ranges from \$200 to \$400 per unit. The amount of the monthly deposits into the replacement reserve account is determined at the time of loan commitment based on the stage 2 application and the underwriting analysis. If the loan is a Construction Loan the reserve amounts will be re-evaluated upon completion of construction. Reserves are calculated on an individual basis. The actual capital needs of the property may or may not reflect the items anticipated during the study. The Servicer is responsible for authorizing releases from the replacement reserve.

Eligibility of Request

The Servicer is responsible for determining that the items in the disbursement request are eligible capital replacement items. Items that would generally be considered routine maintenance are not eligible for reimbursement from the replacement reserve account. The following are examples of eligible replacement items:

- Major appliances
- Sinks and tubs
- Countertops
- Doors
- Roofs
- Plumbing, sanitary and heating/cooling systems
- Siding
- Fire alarms

Disbursements

The Servicer must also document that all capital replacements are completed satisfactorily. The Servicer may make a disbursement under the replacement reserve agreement if the Sponsor has paid for and submitted evidence of payment for all work included in the disbursement request. Evidence must be in the form of lien waivers, copies of canceled checks, receipts or invoices that are in the amount of the disbursement request and that are marked "paid."

Completion of Work

The Servicer is responsible for determining that the repairs are completed according to the loan documents as part of the annual property inspection. The Servicer should make note of the items and document them by taking photographs.

Annual
Certification

The Servicer must certify to VA in writing that all escrow account collections and disbursements have been made in accordance with the procedures in the Program Manual by March 31 of each year. The Servicer must explain in writing any discrepancies from the agreements and provide a description of the steps being taken to resolve each matter.

*Physical
Assessment of
Property
Condition*

The property condition at the time of loan closing and during the term of the mortgage is very important to the success of the project. The property must be well maintained in order to protect the health and safety of the residents. The Servicer is responsible to verify that property securing the loan that it services for VA is managed and maintained in accordance with the requirements of the loan documents.

Frequency
and TimingRoutine

The annual physical inspection will occur each year during the month of the anniversary of loan origination. The report is due to VA within 30 days of the inspection date. The Servicer must schedule the physical inspection with enough notice to complete the inspection during the anniversary month, but not earlier than 60 days prior to submitting the assessment to VA. The Servicer may request an extension from VA if the need arises.

Special Circumstances

The Servicer must submit a physical inspection to VA within 60 days of the occurrence of one of the following events:

- Placement of a loan on the Watchlist
- Maturity of the loan (if the loan is not fully amortizing at maturity)
- Delinquency of the loan (See the Non-Performing Loan section of this chapter)
- Bankruptcy of the Sponsor
- Non-monetary default of the loan (e.g., unauthorized transfer of ownership)
- Transfer of ownership by the Sponsor
- Subordinate financing or tax lien on the property
- Partial release of property lien
- Loan extension request by the Sponsor
- VA's request to provide a current status
- Adverse environmental conditions
- Insurance losses in excess of the lesser of 10 percent or \$100,000

The Servicer will perform a detailed physical assessment of the property using the form in Appendix G to document its physical inspection. Property assessments generally will include an on-site inspection; an evaluation of the market, sub-market, and neighborhood in which the property resides; and an analysis of the competitive position of the property.

Within 30 days of completing its assessment, the Servicer must send the Sponsor a letter listing the areas that the Sponsor needs to correct, such as life/safety issues and deferred maintenance. Within 30 days of the receipt of this letter, the Sponsor must respond with a plan to correct these items and provide information, such as receipts or photos to support completion of repairs.

Personnel to
Perform
Assessments

Except as otherwise stated in this chapter or agreed to by VA in writing, an employee of the Servicer must perform the inspection and analysis.

Inspection
Fees

The Servicer performs the following inspections as part of its contractual responsibilities and may not charge the Sponsor a separate fee:

- Annual inspections
- Insurance loss inspections, except to the extent that proceeds from the insurance loss claim are specifically provided to cover such inspection costs
- Detailed assessment of delinquency inspections (See Non-Performing Loan section of this chapter)
- Assessments completed at VA's request

For other types of inspections, the Servicer may charge the Sponsor a reasonable fee, provided that the charging of such fee is permitted in the loan documents. The Servicer will set and charge the fee as compensation for completing an inspection outside of the normal course of business. The Servicer will substantiate the reasonableness of its fee in writing to VA.

*Financial
Analysis*

Monthly

Borrower
Requirements

The Sponsor must provide the following information to the Servicer on a monthly basis:

- A rent roll that lists the names and unit numbers of all residents along with their current rental rate dated as of each month end;
- An operating statement that shows monthly and quarter to date financial information along with budget variances and explanations for all variances of more than five percent of budget (Appendix H); and

- An occupancy report that enumerates: occupied units, vacant units, total units, notices to vacate within 30 and 60 days, out-of-service units, and leased units.

Quarterly

The following reporting package is due to the Servicer no later than the 15th day following the month end. For example, the financial package for the month ended September 30th would be due no later than October 15th.

The Sponsor must certify on a quarterly basis that it is complying with the covenants of the loan with respect to providing services. The Sponsor must provide a summary of supportive and counseling services provided on a quarterly basis. This information must list:

- All services housed on-site, offered periodically at the site and available locally
- All sources of service, such as community or VA-based
- Total hours spent by program
- All individual or group programs offered
- All new or repeat residents treated
- Total financial support for residents

Annual Basis

Audited Financial Statements

The Sponsor must submit annual audited financial statements to the Servicer within 90 days of the property's fiscal year-end. If a property's year-end were December 31, the Sponsor would submit the statements by March 31 of the following year.

The Sponsor must follow the requirements of HUD Handbook Section 4370.2, "Financial Operations and Accounting Procedures for the Insured" in hiring an independent public accountant and meeting the minimum requirements for audited financial statements. The HUD document includes detailed information regarding the types of reports and the report content required. Please see http://www.hudclips.org/sub_nonhud/cgi/nph-brs.cgi?d=HSGH&s1=financial+operations+and+accounting+procedures&op1=AND&I=100&SECT1=TXT_HITS&SECT5=HEHB&u=./hudclips.cgi&p=1&r=53&f=G.

Operating Budget

The Sponsor must provide the Servicer with an annual operating budget and capital improvement program by December 1 of each year.

**Servicer
Requirements****Quarterly**

The Servicer will prepare a quarterly (or monthly if agreed to by the VA and the Servicer) asset management report that provides a comprehensive analysis of the loan performance and property operations.

In completing the asset management report, the Servicer must:

- Compile the property financial statements into the format shown in Appendix H
- Prepare an update on the mortgage payment record and current status
- Prepare an update on the status of mortgage administration items, such as insurance coverage and adequacy of escrows
- Perform an analysis of rent roll and occupancy information to identify potential negative trends
- Perform an analysis of commercial and retail space and its impact on the overall property operating results
- Perform an analysis of income and expense data and provide explanations of trends
- Identify any negative trends in DSCR
- Identify any risk factors associated with the mortgage, Sponsor or property that may necessitate placing the loan on the watchlist (see Non-Performing Loan section of this chapter)

For any mortgage with a DSCR of less than 1.0 for the quarter, the report must include a detailed analysis as to the reasons for that level of DSCR, such as poor marketing condition, physical deterioration of the property, ineffective property management or unanticipated expense increases. The report should document the steps that are being taken to resolve any identified performance problems.

Annual**Audited Financial Statements**

The Servicer must review the property's annual audited financial statements in accordance with HUD 4370.1, Reviewing Annual and Monthly Financial Reports. Please see http://www.hudclips.org/sub_nonhud/cgi/nph-brs.cgi?d=HSGH&s1=financial+reports+and+supporting+data&op1=AND&l=100&SECT1=TEXT_HITS&SECT5=HEHB&u=/.hudclips.cgi&p=1&r=34&f=G. The Servicer must complete the analysis of the audited financial statements by June 1 of each year.

Waivers

The Servicer may waive the annual reporting requirement if:

- The loan paid off before the June 1 reporting deadline; or
- The loan is delinquent

The Servicer must document the waiver approval in writing and maintain a copy in the loan file.

Transfers of Ownership

This section of the program manual describes the procedures for handling transfers of ownership. A transfer of ownership occurs when the Sponsor or a significant interest in the Sponsor, which is defined below, assumes legal ownership of the property. A transfer of ownership is also called a transfer of physical assets. Although this type of transfer is not considered a new loan, the proposed transferee must obtain VA approval to assume the loan prior to the legal change in ownership. The proposed assumptor must meet the same underwriting standards for a Sponsor on a new transaction.

All loans in the Program will permit ownership transfers with VA prior written approval. VA has the authority to deny a proposed transfer of ownership. A transfer of ownership may occur without VA prior written approval. However, these unauthorized transfers of ownership constitute a default under the loan documents. VA relies on the Servicer to identify unauthorized transfers of ownership through its annual review process and through routine loan servicing. For example, the Servicer might receive a hazard insurance cancellation notice as an indication of a possible change in ownership. The receipt of a mortgage payment from an entity other than the Sponsor of record might be another indication of a possible change in ownership.

Types of Transfers Requiring VA Approval

The Sponsor must obtain VA's prior written approval for any of the following types of transfers:

Transfer of the property – Any transfer of the Sponsor's fee simple title or ground leasehold interest that is accompanied by an assumption of the mortgage by a new Sponsor.

Transfer of ownership interests - Any of the following types of transfers of (direct or indirect) ownership interests in the Sponsor:

- A transfer of any “significant interest” in the Sponsor or a principal of the Sponsor, which is defined as follows:
 - ❑ If the entity is a general partnership or a joint venture, (a) any partnership interest in the general partnership, or (b) any interest of a joint venturer in a joint venture;
 - ❑ If the entity is a limited partnership, (a) any limited partnership interest in the entity which, together with all other limited partnership interests in the entity transferred

since the date of the note, exceeds 49 percent of all the limited partnership interests in the entity, or (b) any general partnership interest in the entity;

- ❑ If the entity is a limited liability company, any membership interest which, together with all other membership interests in the limited liability company transferred since the date of the note, exceeds 49 percent of all the membership interests in the limited liability company;
 - ❑ If the entity is a corporation, any voting stock in the corporation which, together with all other voting stock of the corporation transferred since the date of the note, exceeds 49 percent of all of the voting stock of the corporation;
 - ❑ If the entity is a trust, any beneficial interest in the trust which, together with all other beneficial interests in the trust transferred since the date of the note, exceeds 49 percent of all the beneficial interests in the trust; or
 - ❑ If the Sponsor is a trust, or if any trust owns a significant interest in the Sponsor, the addition, deletion, or substitution of a trustee of such trust.
- A transfer of any significant interest in a corporation, partnership, limited liability company, joint venture, or trust which owns a significant interest in the Sponsor.
 - A transfer of all or any part of any principal's ownership interest (other than limited partnership interests) in the Sponsor, or in any other entity that owns, directly or indirectly, through one or more intermediate entities, an ownership interest in the Sponsor.

Request for
VA Approval
of Transfer of
Ownership

Applications for approval of a transfer of ownership and loan assumption will require the same underwriting as required with a new loan. The Servicer must notify the Sponsor and the proposed transferee that VA will require a complete package at least 60 days prior to the proposed transfer date. See Chapter 4: Loan Guarantee Application Process.

The Servicer will review the package and assess whether:

- The transferee meets all underwriting criteria
- The transferee assumes the total remaining debt
- The transferee acquires all of the property securing the guaranteed loan balance

- The priority of the existing lien securing the guaranteed loan will be maintained or improved
- The transferor retains liability
- The transferee is capable of providing supportive services that meet the Program standards

The Servicer will make a recommendation to VA as to whether to approve the proposed transfer and loan assumption.

The Servicer will charge the Sponsor a review fee of \$3,000 to compensate the Servicer for the new application review. In addition, the Sponsor will also pay an assumption fee equal to one percent of the unpaid principal balance as a transaction cost. Both fees are non-refundable.

In accordance with the agreements between VA and FFB, VA will notify FFB of any ownership transfer or any other material events that affect the quality of FFB's security interest in the property.

Approval
Decision

VA will review the proposed transfer and loan assumption request and provide the Servicer with a written approval within 30 days of receipt of a completed application package.

Preparation
of
Documents

The Servicer's legal counsel is responsible for preparing and reviewing all documents associated with the transfer of ownership. The legal fees will be the responsibility of the transferee. The documents must demonstrate:

- Proper execution and delivery of the conveyance and assumption documents
- Compliance with any legal requirements
- Perfection of the transfer and lien priority

Following the closing, the Servicer will provide VA with an executed assumption agreement and a statement showing changes in the loan documents

Unauthorized
Transfers of
Ownership

If the Servicer has reason to believe an unauthorized transfer has occurred, the Servicer must contact the Sponsor to determine whether an unauthorized transfer has actually transpired. The Servicer must notify VA of the following items within one week after confirmation of the unauthorized transfer:

- Sponsor
- Property name and address
- Names of all parties involved

- Identification of unauthorized transfer
- Dates of unauthorized transfers
- Recommendation for resolution

VA will make a decision as to whether to have the transferee go through the approval process or to disallow the transfer, leaving the loan in technical default.

UCC Renewals

The Uniform Commercial Code (UCC) is a comprehensive code of laws regulating important legal aspects of business and financial transactions. The UCC has been accepted by every state except Louisiana. A prescribed UCC document perfects VA's security interest in personal property associated with the real estate loan.

The Servicer must retain the original stamped copies of all applicable UCC financing statements and assignments filed in connection with the personal property securing the mortgage.

The deadlines for filing UCC renewal or continuation statements vary from jurisdiction to jurisdiction. The Servicer is responsible for preserving, on a continuous basis, VA's first lien security interest in the personal property. Sixty days prior to the expiration date, the Servicer must monitor the expiration dates of financing statements filed and take steps to file and record the UCC continuation statements. The Servicer must maintain an effective "tickler" system for tracking the UCC renewal or continuation filing deadlines applicable to all of the mortgages it services.

The Servicer may request a limited power of attorney from FFB/VA that enables the Servicer to execute UCC continuation statements on behalf of FFB/VA.

Payoffs

The Sponsor must notify the Servicer in writing that it intends to pay off a loan according to the program financing agreement, note purchase agreement, and future advance promissory note. The Servicer is responsible for the initial review of a Sponsor's request to prepay a mortgage in whole or in part. A Servicer will accept a prepayment of principal in whole or in part only if the prepayment is made in accordance with the terms of the note (see Chapter 5 of this manual for prepayment options). Before responding to any inquiry regarding the prepayment of a mortgage, the Servicer must carefully review the terms of the note to determine any prepayment restrictions and the amount of any prepayment premium to be collected if prepayment is permitted. The servicer will submit the payoff request to VA for approval, and VA will send the final approval to FFB.

Within four business days after its receipt of the Sponsor's notice that it intends to prepay in whole or in part, the Servicer must forward the following information to VA and FFB:

- A request for prepayment approval and prepayment premium confirmation
- A letter from the Sponsor or the Sponsor's agent, addressed to the Servicer, requesting prepayment approval and prepayment premium confirmation
- The property name and address
- The current unpaid principal balance
- The approximate date of payoff

VA and FFB will review the request for the prepayment and will send a written response to the Servicer to confirm the payoff amounts. FFB will provide the final market-value prepayment premium or discount at the close of business two business days prior to the payoff. The FFB note purchase agreement and the promissory note refer to the prepayment premium or discount. The Sponsor may elect a prepayment privilege with its loan at the time the funds are drawn down, that is either the market value prepayment options or fixed-price prepayment option. The calculation of the prepayment premium or discount in dollars will be completed at the time of the payoff for the market-value prepayment option. The calculation is a product of the dollar amount of the prepayment and the prepayment premium or discount. For the fixed premium option, the fee percentage is set at the time the Sponsor elects this option. The fixed price prepayment privilege can be paid either by up-front fee or as a Basis Point increment above the interest rate at the time any advance is drawn.

Non-Performing Loan Servicing

VA relies on the Servicer to detect trouble before a loan becomes delinquent, i.e., a loan that does not make payments in accordance with the loan agreement or that has a violation of other loan provisions. Loans that become delinquent, i.e., past due, frequently exhibit characteristics of trouble prior to loan delinquency. Early intervention and resolution may avert further deterioration. However, despite the detection and intervention measures outlined in the Performing Loan Servicing section, the loan status may worsen, resulting in a delinquent loan. It is the Servicer's responsibility per the Servicing Agreement to act in a timely, efficient and responsible manner to protect VA's interest and to reduce the risk of losses. The level of loan management intensifies as the status of the loan worsens. This section sets forth policies and procedures for servicing non-performing loans.

Delinquency Management

The objective of delinquency management is to mitigate losses to VA. The Servicer is contractually required to treat each delinquency individually, based on its knowledge of the Sponsor, the location and type of property and the extent of the delinquency. The Servicer must take quick action to address delinquency or other violation of the loan documents of which they are aware, such as an unauthorized transfer of ownership. The Servicer is

also responsible for appropriate monitoring, as well as for addressing identified problems.

No Rights
Created

This manual contains various options that VA might use in the servicing of non-performing loans. The decision as to what options, if any, that VA might employ prior to loan termination and foreclosure is in VA's sole discretion. The manual is not intended to and does not create any rights in the Borrower to forbearance or to have VA consider other options prior to VA exercising any legal rights it may have under the loan instruments.

Late
Payments

All payments are due on the first of the month. The Servicer will assess late fees on the 11th or the next business day if the 11th falls on a holiday or weekend.

The Servicer must contact the Sponsor between the first and the 10th day of the month by telephone, in person, or in writing in an effort to determine the reason for the late payment to ascertain the Sponsor's intentions to cure the delinquency. There are circumstances, such as an administrative error, that could result in a late payment. These circumstances are not indicative of loan trouble. The Servicer may resolve the situation without further action.

In the event that the Sponsor has not made a payment by the 10th, the Servicer will send a late notice on the 11th of the month and assess the late fee to the loan account. The Servicer will use the Late Notice (Appendix I). The Servicer will call the Sponsor to determine the:

- Status of the payment
- Cause of delinquency
- Likelihood of reinstatement
- Plan for reinstatement
- Potential need for temporary or permanent loan workout

If, in the Servicer's judgment, the delinquency situation will deteriorate without loss mitigation efforts, then the Servicer must contact VA immediately via telephone and email or fax and proceed to the Initial Assessment of Delinquency.

Late Fees

Assessment

The Servicer must assess late fees of four percent of the monthly principal and interest installment on the 11th. If the Servicer collects the payment before the 30th, per the Servicing Agreement, the Servicer may retain the late fee as its compensation for successfully collecting the payment.

Late charge payments must be collected from the Sponsor. Late charges may not be deducted from regular mortgage payments, escrows, other impound accounts, or reserves for replacements.

Waivers

The Servicer may waive a late fee once in a 12-month period if the Sponsor requests a waiver in writing. The Servicer must document the late fee waiver request and approval in the loan file. VA must approve waiver requests outside of this policy.

Initial Assessment of Delinquency

The Servicer must prepare its initial assessment of delinquency (Appendix J) when the loan is 30 days delinquent and submit it to VA via email, fax, or mail no later than the 35th day of delinquency. The Servicer should perform the following tasks as part of the Initial Assessment of Delinquency (i.e., 30 days delinquent). On the 30th day of delinquency, the Servicer will:

- Send the Sponsor a formal written notice of delinquency;
- Initiate a process to obtain control of the rents and/or net operating income through a lock box; and
- Prepare and send to the Sponsor a Pre-Negotiation Letter (Appendix L).

The initial assessment of delinquency is due to VA by the 35th day of delinquency.

Detailed Assessment of Delinquency

The detailed assessment of the loan is a comprehensive evaluation. The Servicer will closely examine all aspects of the loan as if it were underwriting the loan for the first time. Specifically, the underwriting considerations include an assessment of the property, the Sponsor, and the local real estate market. The Servicer will use the information provided by the Sponsor in response to the pre-negotiation letter. The Servicer will visit the property and develop a current status report on the property's physical condition. The Servicer will also perform a thorough financial analysis. The final product of the detailed assessment of the delinquency is a recommendation to pursue a workout strategy or a foreclosure.

The Servicer will, at a minimum, review the following documentation:

- Documents requested in the pre-negotiation letter (Appendix L)
- Sponsor's credit report
- Loan payment history
- Escrow analysis
- Title report
- Property management contract
- Written correspondence about the delinquency between Servicer and the Sponsor

- Physical assessment of property condition (See Performing Loan Servicing)

By no later than the 60th day of delinquency, the Servicer must provide a detailed assessment of delinquency to VA. The written report must include:

- The reason for delinquency (See textbox below)
- An assessment of the Sponsor's capability and willingness to cure the delinquency
- An assessment of the physical condition of the property
- An evaluation of the current condition of the local economy and competing rental properties in the vicinity of the property (in the event that an alternative use might be necessary)
- An evaluation of the performance of the property management company

The Servicer will compile the analysis in the *Assessment, Workout Recommendations* and *Workout Plan* sections (See Appendix K).

Potential Reasons for Delinquency

- Working capital is insufficient to make the mortgage payment that is due on the first of the month until the rents due on the first of the same month are collected, deposited, and rent checks have cleared.
- Vacancy loss and/or bad debt expenses are high.
- Sponsor is unwilling/unable to advance cash to the project for its continued operations.
- Inexperienced, ineffective, or absentee ownership or property management.
- Sponsor is unwilling/unable to operate the project as it should be operated.
- Project has been abandoned.
- Bankruptcy petition has been filed. The Servicer should be attentive to cases where an involuntary petition has been filed against a Sponsor by a creditor.
- Improper financial operations.
- Uncooperative Sponsor.
- Mismanagement or ineffective management.
- Break-even or negative cash flow.
- Change in rental market such that the property is no longer competitive in the market (in the event that an alternative use is warranted).
- Depressed economy.
- Unauthorized transfer of funds or unauthorized debt.

Recommendation for Resolution

The Servicer will prepare recommendations as to which workout option it deems to be in the best financial and public policy interest of VA. Specific factors to be considered include the extent to which the option will:

- ➡ Minimize impact on services delivery to residents
- ➡ Avoid disruption of the residents
- ➡ Avoid or limit costs/losses to VA
- ➡ Cure the delinquency in a reasonable time frame
- ➡ Restore/preserve the property's physical condition
- ➡ Result in better cooperation from the Sponsor

The Servicer's recommendation to resolve the loan delinquency should include at least two workout options. Foreclosure is one option. In that context, the Servicer will recommend the option that is expected to preserve the value of the investment consistent with VA's public policy mission. A foreclosure recommendation is likely to result when the Servicer's analysis indicates that there is little chance of resolution with the existing Sponsor. The recommendations will be included in the detailed assessment of delinquency, workout recommendations and workout plan (See Appendix K). The Servicer will compile the package and submit it to VA no later than the 60th day of delinquency.

VA will require its Servicer and its property management company to assist with identifying alternative housing for residents in the event that the sale of a foreclosed property will change its use. The Servicer and the property management company will work with the local VA hospital, housing authority, apartment associations, and service organizations in an effort to identify housing opportunities and supportive services for its residents

Loan Workout Options

In its analysis, the Servicer may consider the following loan workout options. This list of options is not intended to be exhaustive.

Sponsor oriented options:

Sponsor oriented options can benefit a property because they either increase the Sponsor's commitment to the property or they remove a Sponsor that is not fully committed to a property.

- Infusion of additional cash by the Sponsor or any personal or corporate guarantor of the loan (excluding VA as guarantor to the FFB) as either an equity contribution or in the form of an unsecured loan.
- Transfer of ownership to a financially stronger Sponsor (pre-foreclosure sale)
- Tax abatement
- Deed property to VA in lieu of foreclosure

Lender/Investor oriented options:

Lender/investor oriented options can benefit a property by providing relief from certain loan terms. These options typically come at a cost to the lender/investor and reduce the yield on their investment.

- Temporary deferment of principal and/or interest payments
- Interest rate reduction
- Release from reserve accounts
- Suspension of deposits to the Reserve Fund for Replacements
- Collection of recourse/personal guarantees
- Replacement of property management and/or Sponsor with a Receiver
- Removal and replacement of general partner
- Commencement of foreclosure action

VA may allow the Sponsor to use funds from an existing reserve to fund operating losses and/or capital improvements. A reserve is a custodial account held by the Servicer. A reserve fund could be Sponsor funds or loan funds set aside for future use in the property or loan. The existence of either of these funds is dependent upon the terms agreed to at the time of loan underwriting.

Property management oriented options:

Property management oriented options may affect the economics of the project, but not the terms of the loan.

- Adjustments to rental rates, upward or downward.
- Property management or ownership change.
- Additional rental support in the form of Section 8 tenant-based vouchers. The Sponsor will initiate contact with the appropriate local housing authority to identify prospective new residents with vouchers. Renters with these vouchers have housing choices. If the property securing the VA guaranteed loan was in need of rent paying residents, sourcing new residents at the local housing authority may warrant pursuit. Prospective residents who have Section 8 vouchers will be considered for residency in the same manner as prospective residents who do not have Section 8 vouchers. The property management company will give priority to eligible homeless veterans, and then to veterans who are not homeless and to homeless individuals who are not veterans, in accordance with the Loan Guarantee Program for Multifamily Transitional Housing (Section 601 of Public Law 105-368).

Workout Plan

In addition to the specific recommendation(s) for resolution, the Servicer will develop a workout plan as part of the detailed assessment of delinquency. The plan will include:

- A pro forma showing the viability of the proposed workout.
- A description and estimate of the cost of the proposed workout.
- Identification of the resources required.
- Assignment of the recommended actions of each party.
- The establishment of a projected timetable.

VA will review the Servicer's recommendation and approve it in writing. If VA is not satisfied with the Servicer's recommendations, VA may require additional analysis that is within the scope of the Servicing Agreement. The Servicer must carry out VA's instructions and work closely with VA in managing the workout process. The Servicer will work with the Sponsor and VA to formally approve the workout. Once the workout plan is finalized, the Servicer will administer the loan according to the new terms.

FFB expects to preserve the present value of its investment. A workout may result in a change in the interest rate or the timing of repayment that could reduce FFB's investment yield. VA will make a guarantee payment to FFB to cover the costs of any reduction in yield that result from a loan workout.

Watchlist

A watchlist is a specialized document that serves as an early warning and monitoring tool. Both performing and non-performing loans may be placed on the watchlist. Within the context of servicing a loan that is current, the identification of issues on the watchlist will cause the Servicer to perform a closer analysis of the facility. This approach focuses the Servicer's resources on the assets that need the most attention. The Servicer will communicate with the Sponsor verbally and in writing and will request a plan to return the property to stabilized operations.

For performing loans, specific examples of indicators that the Servicer will monitor include but are not limited to:

- Chronic late mortgage payments of fewer than 30 days past due
- Declining DSCR
- Declining occupancy
- Non-payment of rent by the residents

VA may impose more frequent monitoring requirements if, in its discretion or at the recommendation of the Servicer, the mortgage appears to present an increased level of risk.

Non-performing loans that have completed a workout will be considered Watchlist loans for 12 months following the workout.

The Servicer will provide the watchlist report to VA with the quarterly financial reports. The format of the watchlist report will be a memorandum on the Servicer's letterhead with the following information:

- Loan No.

- Sponsor Name
- Principal Name
- Property Name
- Current Principal Balance
- Payment Status
- Reason for Placement on Watchlist and Status of Current Delinquency Management Efforts, if any.
- Anticipated Future Actions on the Loan

The Servicer will operate under an agreement that outlines its responsibilities and VA's termination options. The Servicer receives a fee for its services, as described in this agreement. VA can choose to replace the Servicer with another loan servicer, although it is unlikely that the Servicer would abandon its contractual responsibilities.

Foreclosure Process

Foreclosure is a remedy that the Servicer will likely recommend to VA, based on its analysis of the loan. The Servicer will consider whether workout options might be successful in returning the loan to performing status before recommending foreclosure. VA may approve initiation of a foreclosure action as soon as it is legally possible. Conditions leading to foreclosure may include:

- A situation in which a workout plan or other loss mitigation option is not possible or practical - If the loan is 90 days delinquent and the Sponsor has not agreed to the terms of the workout presented by the Servicer and approved by VA and reasonable attempts have been made to negotiate provisions of the workout plan.
- Sponsor non-compliance with a workout plan – If the Sponsor has an approved workout plan and is not complying with certain of its key terms and reasonable attempts have been made to negotiate provisions of the workout plan, the Servicer may conclude that the workout plan will not return the property to physical and financial health as originally intended.

If foreclosure is the only financially viable option, VA will take title to the property. VA will evaluate its workout and disposition options with the dual objectives of minimizing the loss to the government and maximizing the number of beds available to homeless veterans. VA will be particularly focused on the welfare of the residents. The items in bullets are examples of situations that could cause a loan to go into foreclosure rather than hurdles that must be met before a foreclosure action is recommended.

Foreclosure is a legal process governed by state law. In non-judicial foreclosure states, statutes address the foreclosure process. In judicial foreclosure states, the courts govern the foreclosure process. There are delays in taking possession of the property under either regime. The process to foreclose on properties in non-judicial foreclosure states may appear to be more expeditious because the statute spells out the time frames for all actions, but the risk of Sponsor bankruptcies increases. Sponsor bankruptcy

delays foreclosure. Please refer to the following web link for a listing of all judicial and non-judicial foreclosure states:

<http://www.foreclosureassistance.com/states.html>

Once VA approves the recommendation of foreclosure, legal counsel engaged by the Servicer handles the proceedings, keeping the Servicer and VA apprised of all developments. Local legal counsel is necessary to ensure compliance with state and local laws. Legal counsel will copy the Servicer on all of its correspondence with the Sponsor. The Servicer will compile all correspondence and provide a summary of all activity to VA on a monthly basis.

The Servicer continues to closely monitor the asset and proceeds to protect the financial and physical condition of the asset. The earliest anticipated time frame for foreclosure is when the loan is 120 days delinquent (or as permitted under State law), although the foreclosure may take 12 months or longer in the event of a bankruptcy filing.

VA will work with the Servicer and others to find a qualified buyer who proposes to maintain the property's current use. If VA cannot find a buyer who will operate the property as transitional housing for homeless veterans, VA may own and operate the property while continuing to market it to prospective purchasers. If the property's revenue is insufficient to pay operating expenses, VA as owner will fund the shortfall from the financing account. The hiring of local legal counsel is a standard part of a foreclosure process. The costs associated with foreclosure may be funded from the subsidy cost if the associated cash flow assumptions are part of the baseline subsidy estimate for the Program. This practice is consistent with both OMB guidance and other agencies' practices in similar situations.

Pre-foreclosure

During foreclosure, the objective is to mitigate loss by maintaining net operating income and property condition. VA has the sole authority to accelerate a delinquent note, to exercise other available remedies, and to dispose of funds or property.

The Servicer will support the foreclosure process by providing:

- A collateral list for the VA guaranteed loan
- A recommendation for preserving and maximizing the value of collateral
- A property Appraisal and due diligence report
- A proposed date for foreclosure
- Current financial statements of the property
- An estimate of liquidation expenses
- A recommended acquisition method by VA/FFB: deed-in-lieu of foreclosure; judicial foreclosure or non-judicial foreclosure

- Property marketing recommendations

Post-foreclosure

VA's operating objectives will be to sell the property while keeping the transition in ownership from the Sponsor to VA to a new owner as seamless to the residents as possible. Resident concerns will remain a high priority in all of VA's ongoing operating decisions. The Servicer and the property manager carry out these decisions. In the event that the Property's use changes, VA will instruct its Servicer and property management company to facilitate the placement of the residents in other suitable housing.

Ongoing Management

Following the foreclosure, the Servicer will continue to control rents and/or net operating income. The Servicer and/or VA will work with the property management company to promote the stabilization of the property's financial condition.

Sponsors should take the following areas into consideration when evaluating and hiring property management firms, as well as when modifying agreements with or replacing such firms, in the post-foreclosure environment:

- Authority for hiring a property management company
- Approval for changes to a property management company
- Minimum criteria for a property management company in this Program (i.e., either hired by the Sponsor or VA)
- Roles and responsibilities of property managers, including property maintenance, rent collection, supportive services, and payment

Details of evaluating property management companies are described in Chapter 6.

If VA is satisfied with the performance of the property manager, the property management company will continue to collect rent and pay operating expenses. In the event that the property management company is not performing according to its contract or is not managing the property according to the VA Loan Guarantee program guidelines, the Servicer will, at VA's instruction, terminate the property management company. The property management company contract will provide for a 30-day notice period. During the notice period, the Servicer will work to identify three qualified property management companies along with a recommendation for VA's approval.

VA will sign a contract with the new property management company. The property management company fee will be paid, as is customary, out of the property's operations. The property management company will provide the Servicer with standard operating reports on a monthly basis, as is customary in the industry.

Property management fees are paid as a percentage of property revenue out of the property's rents. The property management contract is approved as part of the loan underwriting. It must also be approved if there are any changes to the property manager. If the revenue on a VA-owned asset is insufficient to fund all property operating expenses, including the property management fee, VA would be the source of funding for the property management contract.

*Marketing and Sale
of Property*

The Servicer will assist VA in engaging a qualified real estate broker to actively market and sell the property. The broker will present prospective offers to the Servicer for evaluation and recommendation to VA. At VA's request, the Servicer will engage outside counsel on VA's behalf to process the sale documents and settlement. The outside counsel's fee will be paid out of sale settlement proceeds.

Although the timeframe to market and sell the real estate will vary from property to property, the target timeframe is six months after the foreclosure. VA will take the following steps to monitor the selling efforts:

**Loan
Accounting
and Reporting**

- The listing agreement will require the real estate broker to present each offer to the Servicer on behalf of VA.
- The broker will report to the Servicer on a monthly basis with the number of prospects that have inquired, toured the property, and made offers on the property. This information will be called a traffic report. Also included in the traffic report will be a discussion and summary of the broker's marketing efforts. With this type of reporting, VA and the Servicer will keep close tabs on the progress of marketing and sales efforts.

The Servicer plays a key role in collecting, accounting for, and remitting loan payments to the FFB on a semi-annual basis. This section will document the minimum steps that a Servicer will complete to collect regular monthly payments of principal, interest, taxes, and insurance from the Sponsor and to remit payments to FFB, local taxing authorities, and insurance providers. The section will also define the timeframes for the loan payment and remitting process and specify the minimum standards for reporting loan activity to VA and/or FFB.

This section provides the general guidelines for accounting and reporting. The Servicing Agreement with the Servicer details the specific requirements and standards that the Servicer must meet. The Servicer must establish custodial accounts for the deposit of funds collected in connection with all mortgages it services on behalf of FFB/VA. Custodial accounts are bank accounts that the Servicer establishes for the sole purpose of holding the lender's funds. The number of accounts that the Servicer maintains on behalf of FFB/VA depends on the types of accounts required at the time of loan origination. For example, every loan will have principal and interest payments deposited into one account for FFB/VA. On the other hand, not

every loan will have a repair escrow. Repair escrows are typically used only when a major repair is not completed at the time of permanent funding. The Servicer will establish the number and type of accounts based on the needs of the loans in this Program.

At a minimum, all accounts and related records must be maintained in accordance with sound accounting practices. The Servicer must establish appropriate methods for monitoring the financial viability of the depositories that it chooses to hold custodial funds.

Custodial Accounts

The Servicer will establish custodial accounts with a Federal Deposit Insurance Corporation (FDIC) insured depository institution (i.e., commercial bank, mutual savings bank, savings and loan association, or credit union). It is the Servicer's responsibility to verify that the depository institution and its bank holding company, if any, continuously meet the following eligibility requirements:

Rating Agency	Rating Criteria
Moody's	P-3 or better
Standard & Poor's	A-3 or better
IDC Financial Publishing, Inc.	75 or better
Fitch Ratings Ltd. (formerly Thomson BankWatch, Inc.)	Financial Performance Score of 3.5 or better

The firms identified in the table above provide ratings and research on financial institutions and securities firms. If a depository institution or holding company is rated by these firms, the Servicer must use the Fitch rating to determine whether the institution and its holding company, if any, satisfy the rating criteria.

The Servicer or must confirm and document that all of the custodial accounts meet the minimum eligibility requirements at least once every quarter. The files must document the rating of the depository institution and its holding company, if any. Financial institutions with ratings below the minimum requirements are not eligible to hold funds relating to this Program. The Servicer must transfer the custodial accounts to an acceptably rated institution within 30 days after determining that the rating of the previous depository institution is unacceptable.

The Servicer shall require the depository institution to provide notice to the Servicer of any rating change as soon as it occurs, as well as certification of its ratings each quarter. The Servicer must establish such a written agreement with the depository institution for funds related to this Program. Notwithstanding the above provisions, VA reserves the right to require the Servicer to transfer funds out of a depository institution if VA determines that it is in VA's best interest to do so.

Documentation
- Forms

The Servicer must use the following forms to establish all custodial accounts.

- Master Agreement for Servicer's Principal and Interest Custodial Account (Appendix M)
- Master Agreement for Servicer's Escrow Custodial Account (Appendix N)

Custodial Account
Maintenance

The Servicer must properly title the custodial accounts to legally demonstrate that the Servicer does not have an ownership interest in them. Exact titling of the accounts will be addressed in the servicing agreement but may look similar to the following:

Documentation -
Titling

Custodial Accounts must be titled as follows:

1. Principal and Interest accounts:

"(Name of Servicer) as Trustee of Principal and Interest Custodial Account or Principal and Interest Disbursement Account for the U.S. Department of Veterans Affairs and/or various owners of interests in mortgages"

2. Escrow accounts:

"(Name of Servicer), as Trustee for the U.S. Department of Veterans Affairs and payments of various mortgagors, respectively"

*Payment
Processing*

On a monthly basis, the Servicer will verify that the funds balance in all custodial accounts matches the balance on the Servicer's mortgage loan accounting system. The Servicer completes this task by preparing a written reconciliation between the cash in the bank account and the payments posted to the loan account. The Servicer will verify that this reconciliation is done timely and that the work performed is reviewed and approved by an individual in a supervisory role. The Servicer must maintain all reconciliations in its files.

The Servicer retains the interest on the principal and interest custodial account as part of its compensation.

The Servicer may invest the funds in the taxes and insurance custodial accounts and the replacement, repair, operating reserve and other escrow accounts in short term certificates of deposit in a federally insured financial institution. The Servicer may retain interest on these accounts as permitted by state law or as negotiated with the Sponsor and VA at the time of loan origination.

The Sponsor will send the monthly loan payment to the Servicer according to loan documents and in the manner available, such as check, wire, or automatic payment. For example, the Servicer may send the Sponsor a monthly statement in the amount of the loan payment and the Sponsor returns the monthly statement with a check. The Servicer will segregate the responsibility for posting the payment and the handling of funds. The Servicer must process loan payments and deposit them into the custodial account in a timely manner, but no later than 48 hours or two business days from the date of receipt. The Servicer is responsible to remit funds as they are due under the loan agreement to the Treasury promptly upon receipt.

Payment
Accounting

Procedures for processing late payments are documented in the Non-Performing Loan section of this chapter.

Unless VA provides written authorization to the contrary, the Servicer will apply payments in the following order:

1. Delinquent interest (other than delinquency interest)
2. Delinquent principal
3. Interest for the current month at the gross note rate
4. Principal for the current month
5. Reimbursements for any tax or insurance advances
6. Reimbursements for any delinquency resolution costs, attorney fees, appraisal fees, environmental assessment costs, or physical needs assessment costs
7. Reimbursements to protect the property
8. Late charges
9. Delinquency interest
10. Tax and Insurance deposits
11. Collateral agreement custodial account deposits

The Sponsor's typical monthly payment will include interest, principal, and deposits for insurance, taxes, and replacement reserves. In some instances, the payment may include additional funds to be applied toward the unpaid principal balance or to repay funds advanced by the Servicer. Any shortages should be considered delinquencies that trigger the Initial Assessment of Delinquency.

The Servicer must account for each portion of the Sponsor's monthly payment in the Servicer's records. The payments should be calculated and reported based on a 365-day year and as VA directs for the particular type of payment received.

Priority of
Payments

The interest portion of the fixed installment is determined by computing the number of days interest on the outstanding principal balance as of the last paid installment date. For this calculation, the gross note rate for the mortgage or the delinquency interest rate, as applicable, is used. The gross note rate is the interest rate on the mortgage. It includes a spread for fees.

Net interest represents the interest that is remitted, or “passed through” to FFB. The Interest Rate Confirmation and Payment Schedule Notice are the final determinant of semi-annual amounts due to FFB. VA will receive the entire FFB administrative fee.

Sponsors in the Program will also make monthly tax and insurance payments to the Servicer, as discussed in the Performing Loan Servicing Section of this chapter. The Servicer must track and account for Sponsors' taxes and insurance escrow funds on a project specific basis. For each loan, the Servicer must track and account for:

- The amounts of, and payment deadlines for, all obligations that must be funded from the Sponsor's taxes and insurance escrow funds
- The monthly taxes and insurance escrow payments due from the Sponsor
- The taxes and insurance escrow payments actually received from the Sponsor and deposited into the taxes and insurance custodial account on behalf of the Sponsor
- All withdrawals made from the taxes and insurance custodial account with respect to that mortgage
- Any amounts advanced by the Servicer as servicing advances in connection with the mortgage

The Servicer must not use taxes and insurance escrow funds collected from one Sponsor to pay for principal and interest or for obligations on behalf of any other loan or Sponsor. A shortage in one Sponsor's escrow account must be resolved by that Sponsor or by the Servicer in the form of a Servicer advance to cover the tax or insurance payment.

The requirements for periodic analysis of the balances in the tax and insurance escrow accounts are documented in the Performing Loan Servicing section of this chapter.

*Tax and Insurance
Escrow Accounting*

In the event that the Sponsor pays an amount less than the full monthly payment of principal, interest, taxes, insurance and other escrow deposits by the due date, the Servicer will attempt to collect the full payment according to the Non-Performing Loan Servicing procedures.

*Payment
Shortages*

Assuming that the loan delinquency cannot be resolved through a workout and that a foreclosure or deed-in-lieu of foreclosure occurs, VA would likely already control the finances of the property. If the property's revenue is insufficient to pay operating expenses, VA, as the owner, will advance funds to pay these expenses. If funds are not available and the operating revenue is not sufficient to pay the FFB loan, the FFB loan would become delinquent and likely result in a loan guarantee payment. VA's actions with regard to Sponsor payment shortages and loan guarantee payments are documented in Chapter 9, Loan Guarantee Payments.

Prepayment

The Sponsor may prepay a loan in full with, in some cases, a prepayment penalty. The Servicer must give the Servicer at least 30 days notice of the intent to prepay the mortgage. The Servicer will in turn notify VA and FFB.

The Sponsor must pay accrued interest, at the gross note rate, for that portion of the month up to, but not including, the date on which the prepayment occurs. The Servicer collects a full month's (30 days) accrued interest when the loan payoff occurs on the 31st of a month. In all other cases, when accrued interest is being calculated for fewer than 30 days, the Servicer should collect accrued interest at a per diem rate based on a 365-day year. Regardless of when during the month the payoff occurs, the Servicer should calculate accrued interest based on a 365-day year. For example, if a loan payoff occurs on the last business day of the month which falls on the 28th of November, the Servicer should calculate accrued interest for 27 days (based on a 365-day year) [i.e., multiply the number of days (27 in this example) times the per diem rate (the annual interest rate divided by 365)].

***Remittances and
Remittance
Reporting***

The Servicer should use the pass-through rate to calculate its principal and interest remittance to FFB. After collecting payoff proceeds, calculated in the manner described above at the gross note rate, the Servicer should subtract its Servicing Fee, calculated using a per diem rate based on a 365-day year.

***Remittance
Shortage***

To ensure that the Sponsor is quoted the correct payoff amount, including any applicable accrued interest, prepayment premium, late fees, or other amounts that might be owed under the terms of the note, the security instrument, or the other loan documents, the Servicer should not quote a final payoff amount to the Sponsor without confirmation of the accuracy of the Servicer's figures. VA will provide this confirmation.

Once the payoff amount is confirmed, the proceeds from a prepayment must be remitted to FFB before 3:00 p.m. EST on the prepayment date. The proceeds may include the prepayment premium, which is the fee charged to a Sponsor for payment of a mortgage debt before it is due.

The Servicer must remit to the FFB the full amount of principal and interest of the actual amount to be paid on the loan during each semi-annual period. The semi-annual payment dates may vary depending on the terms of the FFB loan. The Servicer must track and account separately for all Principal and Interest (P & I) payment activity relating to each mortgage. The Servicer must report to VA on such P & I payment activity and must remit P & I payments to FFB no later than the due date of the semi-annual payment. The manner in which the Servicer remits the payment will be in the form of a wire transfer.

On a monthly basis, the Servicer will notify VA if there is a projected shortage of funds to make a semi-annual payment to FFB as part of its routine reporting to VA. If the payment from the Sponsor is not sufficient to pay the next semi-annual payment to FFB in full, VA will make a determination as to

whether to supplement the payment or to allow the FFB loan to become delinquent. The decision of whether or not to make up a payment shortage will result from an analysis of the loan as addressed in the Non-Performing Loan section of this chapter.

Loan Status The Servicer or VA will perform an analysis of the financial status of the loan and present VA with scenarios to support the decision as to whether and how long it might fund or supplement the loan payments.

Reports to FFB/VA

On a monthly basis, the Servicer provides FFB and VA a standardized report with the following minimum data elements in addition to such other reports agreed to by and between the VA and the Loan Servicer:

Loan No.	Debt Service
Property Name	Beginning UPB
Property Address	Principal
City	Interest
State	Tax Escrow
Sponsor Name	Insurance Escrow
Time Period	Replacement Reserve
Loan Amount	Repair Escrow
Status	Other Reserves
Note Date	Late Fee
Note Rate	Delinquency Interest
Current Rate	Other Advances
Pass Through Rate	Additional Principal
Date of Last Paid Installment	Prepayment Premium
Maturity Date	Ending UPB
Amortization Term	Remittance Amount
Balloon Payment	

Portfolio:	VA Loan Guarantee
Servicer:	XYZ Servicing Co.
Date of Report:	xx/xx/03

[illegible]

Remittance
Report

The Servicer will prepare a portfolio level statement that summarizes the status of the cash received on all Program loans and the amount of the next semi-annual loan payment to FFB. This report will highlight any shortfalls in order to make FFB aware of the status of the portfolio and to enable VA to decide whether and how to fund the shortfalls.

Reports to
Borrower

No later than January 31st of each year, the Servicer must send the Sponsor a mortgage account statement for the preceding year. This statement must include, at a minimum:

- The total amount of interest paid by the Sponsor;
- The total amount applied against the principal balance of the mortgage; and
- The unpaid principal balance of the mortgage at the end of the preceding year.

The Servicer must comply with any Internal Revenue Service (IRS) reporting requirements that are applicable to it as a consequence of its activity as a servicer of mortgages.

9 LOAN GUARANTEE PAYMENTS

CHAPTER 9: LOAN GUARANTEE PAYMENTS*Chapter 9 Highlights:*

1. *Overview*
2. *Guarantee Payment Triggers*
3. *Partial Guarantee Payment*
4. *Full Guarantee Payment*
5. *Recovery/Disposition Options*

Overview

VA will work with the Servicer in an effort to resolve Sponsor delinquencies and avoid making a payment on VA's guarantee to FFB. However, in the event of a Sponsor's delinquency and a deficiency in the principal and interest custodial account, VA will honor its commitment as guarantor to make FFB whole under the program financing agreement. Chapter 8 contains a section called Non-Performing Loan Servicing. It is within this section that loss mitigation techniques are listed. This chapter describes the process that VA will follow to make loan guarantee payments to FFB and to recover those payments from the Sponsor or through loan or collateral disposition.

**Guarantee
Payment
Triggers**

Among its other responsibilities, VA's Servicer performs loan accounting and reporting functions as described in Chapter 8. If a Sponsor does not make its scheduled loan payment, the Servicer will notify VA as part of its regular monthly reporting.

**Partial
Guarantee
Payment**

A delinquent loan may necessitate VA's full or partial loan guarantee payment to FFB in accordance with the Program Financing Agreement. If there are insufficient funds available in the P&I custodial account to pay FFB when the payment becomes due (i.e., if the loan is delinquent), VA will fund payment deficits to honor its guarantor obligation to FFB during workout negotiations. At the point in time when a workout or resolution option (e.g., foreclosure, note sale, deed-in-lieu) is known, VA will either make a principal curtailment or pay its full guarantee.

*Payment
Deficits*

VA may elect to fund payment deficits by making semi-annual payments to FFB for some period or by a payment of the guarantee in full. In addition, VA may pay the servicing fee during the delinquency period. As discussed in Chapter 8, the Servicer will provide a monthly report to VA on the status of Sponsor payments and the funds

balance in the P&I custodial account. If there are insufficient funds in the P&I custodial account to make the required FFB semi-annual payment when due, VA will fund the deficiency to FFB's account on the due date of the semi-annual payment in accordance with the Servicer's payment schedule. Funding such deficiencies will constitute partial guarantee payments.

VA's incremental guarantee payments to FFB will continue from the first semi-annual payment after the initial delinquency to the time that VA makes the full guarantee payment or the loan is returned to performing status by the Sponsor. VA will continue to make partial payments on the guarantee until a resolution or disposition path is certain. At that time, if the loan remains delinquent, VA will pay the remaining balance of the guarantee so that it may take assignment of the note or title to the property. VA will pursue the path that presents the best opportunity for a full recovery. The incremental guarantee payment option may prove useful as a short-term solution while the Servicer and VA are assessing workout alternatives. VA and the Servicer will re-evaluate the financial benefits of this approach on a monthly basis and either confirm the use of this option or select another option.

*Principal
Curtailment*

During the delinquency management process, VA may elect to workout a loan and change certain loan terms. For example, VA may consider this option if it has been determined that there is a decline in the value of the property caused by a long-term decline in net income. The Servicer may recommend this approach as a part of a workout recommendation noted in the detailed assessment of delinquency (as described in Chapter 8).

The change in the FFB loan terms may necessitate a principal curtailment on the FFB loan in the form of a partial guarantee payment by VA. The dollar amount of the guarantee payment would be calculated based on the present value of the anticipated principal and interest payments from the time of the workout agreement among VA, the Sponsor, and FFB until scheduled loan payoff.

The reduction in principal on the loan might be considered a taxable event to the Sponsor as a forgiveness of debt. In order to preserve the status of VA's partial loan guarantee payment as a non-taxable event for the Sponsor, VA will place a subordinate lien on the property in the amount of the partial loan guarantee payment. The subordinate lien will be due if the property is sold, but will not require monthly payments by the Sponsor. This action is typically referred to as placing a "soft second" mortgage on the property because the debt does not have monthly payment requirements.

VA will not guarantee a loan that represents more than 80 percent of total project cost. The restructuring of the existing FFB debt is a shifting of debt from one first mortgage to two mortgages – a primary mortgage and a secondary mortgage. The first mortgage will have principal and interest payments at a reduced rate and the second mortgage will not have payment obligations during its term but will be payable upon sale. The second mortgage would begin to amortize upon payment in full of the first mortgage. The concept of a subordinate lien in this case is a means to record the reallocation of the FFB debt.

**Full
Guarantee
Payment**

A full guarantee payment is a payoff of the entire amount due to FFB. In the event of a delinquent loan, there will be insufficient funds to make the semi-annual payment on the due date to FFB. A full guarantee payment may occur as soon as six to 12 months after the initial delinquency unless the loan returns to performing status or a satisfactory workout plan is implemented. VA will make a full guarantee payment in the event that a delinquency analysis indicates that a disposition alternative, which could include deed-in-lieu, pre-foreclosure sale, note sale or a foreclosure, will yield the best recovery to VA.

**Recovery /
Disposition
Options**

Following a loan guarantee payment to FFB, VA will seek to recover its costs through one of several options. The Non-Performing Loan Servicing section of Chapter 8 addresses the operational aspects of loan workouts and note and property dispositions. In general terms, VA will work with the Sponsor to return the loan to performing status by implementing a workout plan. If the workout plan fails or the Sponsor has been non-compliant with the workout procedures, VA may pursue another option, such as foreclosure. The FFB will assign its rights under the loan to VA. The timeframes associated with each recovery/disposition option vary.

Recovery of loan guarantee payments will typically come from the asset rather than from the Sponsor or from personal or corporate guarantors. Recourse to the Sponsor is dependent on whether the loan is negotiated with recourse at the time of loan origination. If the loan is negotiated with full recourse to the Sponsor, recourse to an individual or an entity that has assets could be a source of recovery for VA.

The following are recovery options that VA may implement to recoup loan guarantee payments:

1. **Loan Workout**
2. **Note Sale**
3. **Deed-in-Lieu of Foreclosure**
4. **Pre-foreclosure Sale**
5. **Foreclosure**

Late Fees

VA does not anticipate paying late fees because it will not allow the FFB loan to become delinquent. However, if the Servicer does not remit the funds on the due date to FFB in full *when sufficient funds are on hand in the P&I custodial account*, the Servicer will be responsible for the late fee payable to FFB. The Sponsor is not liable in this case.

In the event that the Servicer or VA does not remit the semi-annual payment to FFB, the FFB will assess a late fee as defined in the Program Financing Agreement. The late fee will be assessed on the overdue amount. The late fee is equal to one and one-half times the rate on the most recently auctioned 13-week United States Treasury Bill. As long as any overdue amount remains unpaid, the late fee will accrue. The late fee will re-adjust at each successive missed payment due date to occur thereafter, and will be applied to the overdue amount and all amounts of the accrued late fees to date. An example of the calculation of the late fee is as follows:

Calculation of Late Fee Percentage	
Treasury Bill Rate (13 week) as of September 26, 2003	0.83%
<i>Times Additional Fee</i>	1.5
<i>Equals Late Fee Percentage</i>	1.245%
Semi-annual payment due to FFB	\$216,800
<i>Times Adjusted Late Fee Percentage (1.245% / 2)</i>	0.6225%
Late Fee Payment due to FFB	\$1,350

Please note: The numbers used in this example are for illustrative purposes only and reflects a loan payment that is six months late.

If the semi-annual payment due to FFB is not paid within 30 days of the due date, FFB will issue a delinquency notice to VA and initiate a payment request against the guarantee. VA will have 30 days to cure the delinquency or to honor its commitment under the guarantee. VA will have 60 days from the delinquency notice to make the payment to FFB. VA will continue to pay interest at the FFB note rate due plus any late fees during the delinquency period until the delinquency is cured or the loan guarantee payment is paid.

APPENDIX A

Appendix A: Supplemental Forms

The table below lists forms that VA may use to supplement the Program Application.

TABLE 5: List of Application Forms

Name of Form	Application Stage at Which to Submit
SF 424 Application for Federal Assistance	I and II
SF 424 D Assurances	I
HUD Form 2238 Contractor's and/or Mortgagor's Cost Breakdown	Preliminary estimates at I Final estimates at II
FHA 2403 A Contractor's Prevailing Wage Certification	II
HUD 935.2 Affirmative Fair Housing Marketing Plan	I
Certification that Project Will Serve Homeless Veterans	I
Certification that Project will Require Residents to Seek to Obtain and Maintain Employment	I
Certification that Sponsor will Maintain Strict Guidelines Regarding Sobriety as a Condition of Residency	I
RD 1944-30 Identity of Interest Disclosure Certificate	II
RD 1944-31 Identity of Interest Qualification	II

In addition, VA may determine to replace portions of the Development Team section of the Program Application with the following forms:

TABLE 6: Replacement Forms for Development Team Section

Name of Form	Application Stage at Which to Submit
HUD 2530 Previous Participation Certification	I
HUD 92417 Personal Financial and Credit Statement	I
HUD 92004 Request for Verification of Deposit	I

APPENDIX B

Appendix B – Draw Request Form
AIA Form G703-1992

Appendix B - continued

APPENDIX C

Appendix C— Change Order

Form RD 1924-7
(Rev. 2-97)UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT AND
FARM SERVICE AGENCY**CONTRACT CHANGE ORDER**FORWARD APPROVED
OMB NO. 0575-0042

ORDER NO. _____

DATE _____

STATE _____

COUNTY _____

CONTRACT FOR _____

OWNER _____

To _____

(Contractor)

You are hereby requested to comply with the following changes from the contract plans and specifications:

Description of Changes (Supplemental Plans and Specifications Attached)	DECREASE in Contract Price	INCREASE in Contract Price
	\$ _____	\$ _____
	_____	_____
TOTALS	\$ _____	_____
NET CHANGE IN CONTRACT PRICE	\$ _____	_____

JUSTIFICATION:

The amount of the Contract will be (Decreased) (Increased) By The Sum Of: _____

Dollars (\$ _____).

The Contract Total Including this and previous Change Orders Will Be: _____

Dollars (\$ _____).

The Contract Period Provided for Completion Will Be (Increased) (Decreased) (Unchanged): _____ Days.

This document will become a supplement to the contract and all provisions will apply hereto.

Requested _____
(Owner)

(Date)

Recommended _____
(Owner's Architect/Engineer)

(Date)

Accepted _____
(Contractor)

(Date)

Approved by Agency _____
(Name and Title)

(Date)

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-01042. The time required to complete this information collection is estimated to average 15 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

- ☐ ORIGINAL-BORROWER'S CASE FOLDER
☐ COPY-CONTRACTOR
☐ COPY-BORROWER

POSITION 6

Form RD 1924-7 (Rev. 2-97)

APPENDIX D

Appendix D – Certification of Loan Conversion Questionnaire

Department of Veterans Affairs - Construction to Permanent Loan Conversion Analysis
Servicer Questionnaire

Servicer Name

Borrower Name

Property Name

Instructions: Please Answer questions in Grey Box as instructed. Thank You.

The Servicer has compiled evidence of completion as given, at a minimum, by the following certificates and reports included in the Servicer's file and available to VA upon request:		(Y=Yes / N = No)
1	Have all workman's and materials liens on the property released?	
2	Have true and correct certificates of occupancy for all portions of the Property for which such a certificate is required been issued?	
3	Have true and correct copies of all operating permits and licenses for the Property been obtained?	
4	Are all public utilities necessary to the operation of the Property available?	
5	Has certification stating that the property was completed in a good and workmanlike manner and in accordance with the approved plans and specifications been received from the consulting architect and any other project consultants?	
6	Do rents adhere to all federal, state, or local subsidy programs applicable to the Property?	
7	Has the Borrower sustained 85% of stabilized occupancy for three consecutive months?	
8	Has the Borrower been delinquent on the construction loan during the previous 12 months?	
9	For LIHTC properties, has the Servicer confirmed the reservation or allocation of tax credits through receipt of IRS Form 8609?	
10	Please discuss changes (Up/Down/Flat/% Change per annum, etc.) in area median income from original underwriting to current underwriting:	
11	Please discuss changes (Up/Down/Flat/% Change per annum, etc.) in market rents from original underwriting to current underwriting:	
14	If applicable, please discuss changes in market rents for comparable commercial space between the original underwriting and the current underwriting as well as current commercial leasing status:	
15	Have you have received acceptable recertification of third party reports as required?	
16	The Servicer has inspected the property and confirmed that it has been completed consistent with the standards established in this Program Manual.	
17	Inspection completed by	
	Print Name and Title	Signature and Date
	Print Name and Title	Signature and Date
18	Date of final inspection	
	(mo/day/yr)	

Source: Fannie Mae Form 4212

APPENDIX E

Appendix E: Construction Period Monitoring

U.S. Department of Veterans Affairs CONSTRUCTION PERIOD MONITORING

Instructions:

Please complete this form as detailed below, individually for each loan.
This form must be sent to the Servicer on the following schedule:

1. Commencement of construction
2. Quarterly

Date of Current Report: _____

Date of Prior Report: _____

Servicer: _____

Servicer telephone: _____

Commitment Number: _____

Commitment Expiration: _____

Has commitment been extended? _____

Property Name: _____

Property Street Address: _____

City, State, Zip: _____

Borrower: _____

Sponsor: _____

Number of Units: _____

New Construction/Substantial Rehab/Mod Rehab: _____

Loan Amount: _____

Maximum LTV: _____

Minimum DSC: _____

LIHTC (Y/N): _____

4% or 9% LIHTC: _____

% Set aside (DETAIL): _____

Percent @ 50% Area Median Income: _____

Percent @ 60% Area Median Income: _____

Other (detail): _____

Date Construction Began: _____

Projected Completion Date (Original): _____

Projected Completion Date (Current): _____

Inspecting Architect/Engineer: _____

Date of Last Inspection/Report: _____

Percentage of Completion: _____

Amount of Construction Loan Disbursed: _____

Costs to Complete: _____

Reallocations during reporting period: _____

Liens Filed (Detail): _____

Lawsuits Pending (Detail): _____

Construction Loan in Balance: _____

Loan Defaults (Detail) _____

Leasing Status and Concessions: _____

Percent Leased: _____

Date projected to hit 85% leased: _____

Date projected to stabilize: _____

OTHER COMMENTS: _____

Source: Adapted from Fannie Mae FORM 4211

APPENDIX F

APPENDIX F – Certification of Insurance Coverage

Certification of Insurance Coverage		
Servicer		
Borrower Name		
Property Name		
Property Location		
A. Hazard Insurance		
Insurance Carrier	A.M. Best Rating	
Insurance Broker/Agent		
Address	Telephone	
Policy No.	Annual Premium	
Type of Evidence (Please Circle)		
Policy	Binder	Certificate/Evidence
Inception Date	Expiration Date	
Building Coverage	Deductible Amount	
Blanket Limits for This Building		
Loan Balance	Annual Gross Income	
<i>(Please Circle)</i>		
Are rent loss coverage and extra expense coverages equal to 12 months gross income for all buildings?	Yes	No
Is deductible \$25,000 for replacement values of \$100 million or less, or the lesser of \$100,000 or 1% of coverage for replacement values of \$100 million?	Yes	No
Is policy limit reduced by payment of each claim?	Yes	No
Does the policy contain a terrorism exclusion?	Yes	No
Does the policy contain a biohazard exclusion?	Yes	No
Are the following required provisions included?		
Building ordinance or law coverage	Yes	No
Replacement cost coverage	Yes	No
Notice of cancellation to mortgagee	Yes	No
Mortgage Clause (naming Servicer as mortgagee)	Yes	No
Insurance for localized perils, if applicable	Yes	No
Windstorm coverage	Yes	No
If windstorm coverage is not included, is there a separate windstorm policy?	Yes	No

Appendix F – continued

B. Liability Insurance			
Insurance Carrier		A.M. Best Rating	
Insurance Broker/Agent			
Address		Telephone	
Policy No.		Annual Premium	
Type of Evidence (Please Circle) Policy Binder Certificate/Evidence			
Inception Date		Expiration Date	
Per Occurrence Limit		Per Location?	Yes No
Aggregate Limit		Per Location?	Yes No
Deductible Amount			
Is deductible the lesser of \$10,000 or 1% of coverage?		Yes	No
For elevator-equipped buildings having no more than three stories and a mortgage not greater than \$3 million, is limit of liability \$3 million per occurrence, with general aggregate of \$6 million?		Yes	No
For high-rises and other elevator-equipped buildings having more than three stories or any such building with a mortgage greater than \$3 million, is limit of liability \$5 million per occurrence, with general aggregate of \$7 million?		Yes	No
For all other buildings, regardless of loan size, is limit of liability \$1 million per occurrence, with general aggregate of \$2 million?		Yes	No
Are the following required provisions included?			
Additional insured provision (naming Servicer as additional insured)		Yes	No
Notice of cancellation to additional insured		Yes	No

Appendix F – continued

C. Boiler and Machinery Insurance:			
Insurance Carrier		A.M. Best Rating	
Insurance Broker/Agent			
Address		Telephone	
Policy No.		Annual Premium	
Type of Evidence (Please Circle) Policy Binder Certificate/Evidence			
Inception Date		Expiration Date	
Amount of Boiler/Machinery Coverage		Deductible Amount	
Is coverage per accident equal to the replacement cost?		Yes	No
Are the following required provisions included?		Yes	No
Mortgagee clause (naming Servicer as mortgagee)		Yes	No
Notice of cancellation to mortgagee		Yes	No
D. Flood Insurance (If Located in a Special Flood Hazard Area or as required by VA)			
Insurance Carrier		A.M. Best Rating	
Insurance Broker/Agent			
Address		Telephone	
Policy No.		Annual Premium	
Type of Evidence (Please Circle) Policy Binder Certificate/Evidence			
Inception Date		Expiration Date	
Amount of Flood Coverage		Deductible Amount	
Is deductible \$5,000 per building?		Yes	No
If the Property is NOT located in a flood hazard zone, is certificate in file?		Yes	No
Are the following required provisions included?		Yes	No
Mortgagee clause (naming Servicer as mortgagee)		Yes	No
Notice of cancellation to mortgagee		Yes	No

Source: Adapted from Freddie Mac Form 1133

APPENDIX G

Loan Guarantee Program for Multifamily Transitional Housing for Homeless Veterans

Company Name/Logo

Loan Number:

0

Investor Number:

0

Reviewed By:

0

Property Type:

0

Standard Inspection Form

Page 2 of 3

IV. Property Information

Number of Buildings:

Number of Units:

Number of Floors:

Number of Parking Spaces:

Number of Elevators:

Square Feet:

Number of Units Occupied:

Percent Occupied:

Owner Occupied:

Sprinklers

Occupancy Data☐**Office/Retail/Industrial**

Five Largest Commercial Tenants	Expiration	Sq. Ft.	%NRA	Annual Rent	Rent/Sq. Ft.

☐**Multifamily/Hospitality/Healthcare/Mobile**

Unit Type	# of Units	Avg. Sq.Ft./Unit	Monthly Rent	# Vacant

Amenities

1	<input type="text"/>	2	<input type="text"/>	3	<input type="text"/>
4	<input type="text"/>	5	<input type="text"/>	6	<input type="text"/>
7	<input type="text"/>	8	<input type="text"/>	9	<input type="text"/>
10	<input type="text"/>	11	<input type="text"/>	12	<input type="text"/>
13	<input type="text"/>	14	<input type="text"/>	15	<input type="text"/>

Improvements

Describe in detail what Repairs, Replacements or Improvements have been or will be made this year.

Describe in detail what Repairs, Replacements or Improvements have been planned for the next 1-2 years.

APPENDIX H

Appendix H - Financial Statement Format (CMSA Investor Reporting Form)

MULTIFAMILY OPERATING STATEMENT ANALYSIS REPORT *(includes Mobile Home Parks)* as of MM/DD/YY

PROPERTY OVERVIEW		Allocated Loan Amount/Percentage			
Property ID	1001-001	Paid Thru Date	Debt Outside Trust (1)	\$	%
Note A-Scheduled Loan Balance	\$ -	MM/DD/YY	X or Blank	\$ -	0.00%
Note B-Scheduled Loan Balance	\$ -	MM/DD/YY	X or Blank	\$ -	0.00%
Note C-Scheduled Loan Balance	\$ -	MM/DD/YY	X or Blank	\$ -	0.00%
Property Name					
Property Type					
Property Address, City, State					
Net Rentable SF/Units/Pads.Beds					
Year Built/Year Renovated	MM/DD/YY	MM/DD/YY	Use second box to specify sqft.,units...		
Cap Ex Reserve (annually)/per Unit.etc. (2)	\$ -	\$ -	specify annual/per unit...		
Year of Operations	Underwriting	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY
Occupancy Rate (physical)	0.00%	0.00%	0.00%	0.00%	0.00%
Occupancy Date	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY
Average Rental Rate	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
(1) "X" if debt is outside of the trust, otherwise leave blank					
(2) Total \$ amount of Capital Reserves required annually by loan documents					

INCOME:	3rd Preceding	2nd Preceding	Preceding Yr. (fm NOI Adj Sheet)	TTM/YTD (3) as of / /	(proding yr to base) YYYY-U/W Variance	(proding yr to 2nd proding) YYYY-YYYY Variance
Number of Mos. Covered						
Period Ended						
Statement Classification(yr)						
Gross Potential Rent (4)						
Less: Vacancy Loss						
OR						
Base Rent (4)						
Laundry/Vending Income						
Parking Income						
Other Income						
*Effective Gross Income						
(3) Servicer will not be expected to "Normalize" these YTD/TTM numbers.						
(4) Use either Gross Potential (with Vacancy Loss) or Base Rents; use negative \$amt for Vacancy Loss						

OPERATING EXPENSES:	3rd Preceding	2nd Preceding	Preceding Yr. (fm NOI Adj Sheet)	TTM/YTD (3) as of / /	(proding yr to base) YYYY-U/W Variance	(proding yr to 2nd proding) YYYY-YYYY Variance
Real Estate Taxes						
Property Insurance						
Utilities						
Repairs and Maintenance						
Management Fees						
Payroll & Benefits						
Advertising & Marketing						
Professional Fees						
General and Administrative						
Other Expenses						
Ground Rent						
*Total Operating Expenses						
Operating Expense Ratio						
*Net Operating Income						
Capital Expenditures						
Extraordinary Capital Expenditures						
Total Capital Items						
*Net Cash Flow						
Debt Service - A Note						
Debt Service - B Note						
Debt Service - C Note						
*Net Cash Flow after Debt Service						
*DSCR: (NOI/Debt Service) - A Note						
*DSCR: (NOI/Debt Service) - A & B Note						
*DSCR: (NOI/Debt Service) - A, B & C Note						
*DSCR: (NCF/Debt Service) - A Note						
*DSCR: (NCF/Debt Service) - A & B Note						
*DSCR: (NCF/Debt Service) - A, B & C Note						

Notes and Assumptions: This report should be completed on a Methodology unless otherwise noted. The "Normalized" column is Income: Comments

Expense: Comments

Capital Items: Comments

MULTIFAMILY NOI ADJUSTMENT WORKSHEET
as of MM/DD/YY

PROPERTY OVERVIEW		Allocated Loan Amount/Percentage	
Property ID	1001-001	Paid Thru Date	MM/DD/YY
Note A-Scheduled Loan Balance	\$ -		
Note B-Scheduled Loan Balance	\$ -		
Note C-Scheduled Loan Balance	\$ -		
Property Name			
Property Type			
Property Address, City, State			
Net Rentable SF/Units/Pads,Beds			
Year Built/Year Renovated	MM/DD/YY	MM/DD/YY	
Cap Ex Reserve (annually)/per Unit.etc. (2)	\$ -	\$ -	
Year of Operations	MM/DD/YY		
Occupancy Rate (physical)		0.00%	
Occupancy Date	MM/DD/YY		
Average Rental Rate		\$0.00	
		Debt Outside Trust	
		(1)	\$ %
		X or Blank	\$ - 0.00%
		X or Blank	\$ - 0.00%
		X or Blank	\$ - 0.00%
Use second box to specify sqft.,units...			
specify annual/per unit...			

(1) "X" if debt is outside of the trust, otherwise leave blank
 (2) Total \$ amount of Capital Reserves required annually by loan documents

INCOME:

	YYYY		Notes
	Borrower Actual	Adjustment	Normalized
Statement Classification			
Gross Potential Rent (3)			Include Pad/RV rent
Less: Vacancy Loss			
OR			
Base Rent (3)			
Laundry/Vending Income			
Parking Income			Include forfeited security/late fees/pet
Other Income			
Effective Gross Income			

(3) Use either Gross Potential (with Vacancy Loss) or Base Rents; use negative \$ amt for Vacancy Loss

OPERATING EXPENSES:

Real Estate Taxes			
Property Insurance			
Utilities			
Repairs and Maintenance			
Management Fees			
Payroll & Benefits Expense			
Advertising & Marketing			
Professional Fees			
General and Administrative			
Other Expenses			
Ground Rent			
Total Operating Expenses			
Operating Expense Ratio			
Net Operating Income			
Capital Expenditures			
Extraordinary Capital Expenditures			
Total Capital Items			
Net Cash Flow			
Debt Service - A Note			
Debt Service - B Note			
Debt Service - C Note			
*Net Cash Flow after Debt Service			
*DSCR: (NOI/Debt Service) - A Note			
*DSCR: (NOI/Debt Service) - A & B Note			
*DSCR: (NOI/Debt Service) - A, B & C Note			
*DSCR: (NCF/Debt Service) - A Note			
*DSCR: (NCF/Debt Service) - A & B Note			
*DSCR: (NCF/Debt Service) - A, B & C Note			

Notes and Assumptions: This report should be completed on Methodology unless otherwise noted. The "Normalized" column is Income: Comments

Expense: Comments

COMMERCIAL OPERATING STATEMENT ANALYSIS REPORT (includes Retail/Office/Industrial/Warehouse/Mixed Use/Self Storage)

as of MM/DD/YY

PROPERTY OVERVIEW		Allocated Loan Amount/Percentage			
Property ID	1001-001	Debt Outside Trust (1)			
Note A-Scheduled Loan Balance	\$ -	Paid Thru Date	MM/DD/YY	X or Blank	\$ - 0.00%
Note B-Scheduled Loan Balance	\$ -		MM/DD/YY	X or Blank	\$ - 0.00%
Note C-Scheduled Loan Balance	\$ -		MM/DD/YY	X or Blank	\$ - 0.00%
Property Name					
Property Type					
Property Address, City, State					
Net Rentable SF/Units/Pads,Beds	Use second box to specify sqft.,units...				
Year Built/Year Renovated	MM/DD/YY	MM/DD/YY			
Cap Ex Reserve (annually)/per Unit,etc. (2)	\$ -	\$ -	specify annual/per unit...		
Year of Operations	Underwriting	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY
Occupancy Rate (physical)	0.00%	0.00%	0.00%	0.00%	0.00%
Occupancy Date	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY
Average Rental Rate	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

(1) "X" if debt is outside of the trust, otherwise leave blank
 (2) Total \$ amount of Capital Reserves required annually by loan documents

INCOME:

Number of Mos. Covered
 Period Ended
 Statement Classification(yr)
 Gross Potential Rent (4)
 Less: Vacancy Loss
OR
 Base Rent (4)
 Expense Reimbursement
 Percentage Rent
 Parking Income
 Other Income

Underwriting Base Line	3rd Preceding	2nd Preceding	Preceding Yr. (fm NOI Adj Sheet)	TTM/YTD (3) as of / /XX	(proding yr to base) YYYY-U/W Variance	(proding yr to 2nd proding) YYYY-YYYY Variance

*Effective Gross Income

(3) Servicer will not be expected to "Normalize" these YTD/TTM numbers.

(4) Use either Gross Potential (with Vacancy Loss) or Base Rents; use negative \$amt for Vacancy Loss

OPERATING EXPENSES:

Real Estate Taxes
 Property Insurance
 Utilities
 Repairs and Maintenance
 Janitorial
 Management Fees
 Payroll & Benefits
 Advertising & Marketing
 Professional Fees
 General and Administrative
 Other Expenses
 Ground Rent

*Total Operating Expenses

Operating Expense Ratio

--	--	--	--	--	--	--

*Net Operating Income

--	--	--	--	--	--	--

Leasing Commissions
 Tenant Improvements
 Capital Expenditures
 Extraordinary Capital Expenditures

Total Capital Items

*Net Cash Flow

--	--	--	--	--	--	--

Debt Service - A Note

Debt Service - B Note

Debt Service - C Note

*Net Cash Flow after Debt Service

--	--	--	--	--	--	--

*DSCR: (NOI/Debt Service) - A Note

--	--	--	--	--	--	--

Notes and Assumptions: This report should be completed an
 Methodology unless otherwise noted. The "Normalized" column a
 Income: Comments

Expense: Comments

Capital Items: Comments

PROPERTY OVERVIEW		Allocated Loan Amount/Percentage				
Property ID	1001-001	Debt Outside Trust				
	Paid Thru Date	(1)	\$			%
Note A-Scheduled Loan Balance	\$ -	MM/DD/YY	X or Blank	\$ -		0.00%
Note B-Scheduled Loan Balance	\$ -	MM/DD/YY	X or Blank	\$ -		0.00%
Note C-Scheduled Loan Balance	\$ -	MM/DD/YY	X or Blank	\$ -		0.00%
Property Name						
Property Type						
Property Address, City, State						
Net Rentable SF/Units/Pads/Beds	Use second box to specify sqft. units...					
Year Built/Year Renovated	MM/DD/YY	MM/DD/YY				
Cap Ex Reserve (annually)/per Unit. etc. (2)	\$ -	\$ -	specify annual/per unit...			
Year of Operations	Underwriting	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY
Occupancy Rate (physical)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Occupancy Date	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY	MM/DD/YY
Average Rental Rate	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

(1) "X" if debt is outside of the trust, otherwise leave blank
(2) Total \$ amount of Capital Reserves required annually by loan documents

Number of Mos. Covered
Period Ended
Statement Classification (yr)
Gross Potential Rent (4)
Less: Vacancy Loss

Private Pay (4)

Medicare/Medicaid
Nursing/Medical Income
Meals Income
Other Income

*Effective Gross Income

[illegible]

(3) *Service* will not be expected to "Normalize" these TTM/YTD numbers.

(4) Use either Gross Potential (with Vacancy Loss) or Private Pay/Medicare/Medicaid; use negative \$amt for Vacancy Loss

- Real Estate Taxes
- Property Insurance
- Utilities
- Repairs and Maintenance
- Management Fees
- Payroll & Benefits
- Advertising & Marketing
- Professional Fees
- General and Administrative
- Room expense - housekeeping
- Meal expense
- Other Expenses
- Ground Rent

***Total Operating Expenses**

Operating Expense Ratio

*Net Operating Income

Capital Expenditures
Extraordinary Capital Expenditures
Total Capital Items

*Net Cash Flow

Debt Service - A Note

Debt Service - B Note

Debt Service - C Note

*Net Cash Flow after Debt Service

***DSCR: (NOI/Debt Service) - A Note**

*DSCR: (NOI/Debt Service) - A & B Note

*DSCR: (NOI/Debt Service) - A, B & C Note

Capital Items: Comments

HEALTHCARE NOI ADJUSTMENT WORKSHEET as of MM/DD/YY

PROPERTY OVERVIEW		Allocated Loan Amount/Percentage	
Property ID	1001-001	Paid Thru Date	Debt Outside Trust (1)
Note A-Scheduled Loan Balance	\$ -	MM/DD/YY	X or Blank \$ - 0.00%
Note B-Scheduled Loan Balance	\$ -	MM/DD/YY	X or Blank \$ - 0.00%
Note C-Scheduled Loan Balance	\$ -	MM/DD/YY	X or Blank \$ - 0.00%
Property Name			
Property Type			
Property Address, City, State			
Net Rentable SF/Units/Pads,Beds			
Year Built/Year Renovated	MM/DD/YY	MM/DD/YY	
Cap Ex Reserve (annually)/per Unit.etc. (2)	\$ -	\$ -	
Year of Operations	MM/DD/YY		
Occupancy Rate (physical)	0.00%		
Occupancy Date	MM/DD/YY		
Average Rental Rate	\$0.00		

(1) "X" if debt is outside of the trust, otherwise leave blank
 (2) Total \$ amount of Capital Reserves required annually by loan documents

INCOME:

	YYYY	Adjustment	Normalized	Notes
	Borrower Actual			
Statement Classification				
Gross Potential Rent (3)				
Less: Vacancy Loss				
OR				
Private Pay (3)				
Medicare/Medicaid				
Nursing/Medical Income				
Meals Income				
Other Income				
Effective Gross Income				

(3) Use either Gross Potential (with Vacancy Loss) or Private Pay/Medicare/Medicaid; use negative \$amt for Vacancy Loss

OPERATING EXPENSES:

Real Estate Taxes			
Property Insurance			
Utilities			
Repairs and Maintenance			
Management Fees			
Payroll & Benefits			
Advertising & Marketing			
Professional Fees			
General and Administrative			
Room expense - housekeeping			
Meal expense			
Other Expenses			
Ground Rent			
Total Operating Expenses			
Operating Expense Ratio			
Net Operating Income			
Capital Expenditures			
Extraordinary Capital Expenditures			
Total Capital Items			
Net Cash Flow			
Debt Service - A Note			
Debt Service - B Note			
Debt Service - C Note			
Net Cash Flow after debt service			
*DSCR: (NOI/Debt Service) - A Note			
*DSCR: (NOI/Debt Service) - A & B Note			
*DSCR: (NOI/Debt Service) - A, B & C Note			

Notes and Assumptions: This report should be completed and Methodology unless otherwise noted. The "Normalized" column at Income: Comments

Expense: Comments

Capital Items: Comments

APPENDIX I

Appendix I – Late Notice

Source: Fannie Mae DUS Guide

[LATE PAYMENT-FEES ASSESSED]

[Servicer's Letterhead]

[Date]

[Borrower's Name
& Address]

Attn: _____

Re: \$_____ loan to _____ [Borrower] secured by certain
real property and improvements located in _____;
Loan #_____ (the "Loan")

Dear [Borrower]:

We received a payment in the amount of \$_____ for the above-referenced Loan on
_____. The monthly payment for this Loan is due on the first day of each month
and is subject to a late fee if received after the ____th day of each month. In addition, the
Loan documents provide for the charging of interest at a delinquency rate of ____%
during the period that the Borrower is delinquent. Please promptly remit to us \$_____
[and describe what it is for].

Notwithstanding the foregoing, please be advised that acceptance of this payment shall not
be deemed to be a waiver of any of the rights or remedies of the note holder set forth in the
Loan documents or at law or in equity with respect to this or any other payment. No failure
or delay on the part of the note holder in exercising any right or remedy shall operate as a
waiver of any of such rights or remedies. Acceptance of the payment does not imply that
any future late payments will be accepted, and shall not be deemed a waiver of note
holder's right to reject future late payments, assess late charges, charge a delinquency rate
of interest, or take any other actions permitted by the Loan documents or at law or in equity.

Sincerely,

[Servicer]

APPENDIX J

Appendix J - Initial Assessment of Delinquency

<u>U.S. Department of Veterans Affairs Loan Guarantee Program</u>				
Initial Assessment of Delinquency				
<u>General Information</u>				
No.				
Borrower Name				
Principal(s) Name			Telephone number	
Principal(s) Address				
<u>Property Information</u>				
Property Name				
Address				
City		State		
Date of last inspection:		Condition:		
		Property Mgt:		
Date of next inspection:				
<u>Loan Information</u>				
Due Date of the Last Paid Installment:				
Monthly Installments:	P&I Taxes Insurance Replacement Reserve Other Total			
UPB as of _____				
Primary Reason for Delinquency:				
Secondary Reason(s) for Delinquency:				
List all guarantors and/or other collateral for the loan.				
Has this loan previously been delinquent? What were the circumstances?				
<u>Servicer Recommendation</u>				
Prepared By:			Date:	

APPENDIX K

Appendix K – Detailed Assessment

U.S. Department of Veterans Affairs Loan Guarantee Program Detailed Assessment of Delinquency, Workout Recommendation and Workout Plan				
<u>General Information</u>				
No.				
Borrower Name				
Principal(s) Name				
<u>Property Information</u>				
Property Name				
Address				
City		State		
Date of last inspection:		Condition:		
		Property Mgt:		
Date of next inspection:				
<u>Loan Information</u>				
Summary of Current Arrearage:	Principal Interest Late Fees Legal Fees Other: (<u>specify</u>)			

Please attach separate pages for Servicer's analysis on the following:

I. Assessment

II. Workout Recommendations

III. Workout Plan

Approvals

Servicer

Prepared by: _____

Date: _____

Approved by: _____

Date: _____

U.S. Department of Veterans Affairs

Approved by: _____

Date: _____

With the following changes:

APPENDIX L

Appendix L – Pre-Negotiation Letter

Source: Adapted from the Fannie Mae DUS Guide

[PRE-NEGOTIATION FORM LETTER]

[Date]

Re: \$_____ loan (the "Loan") from the Federal Finance Bank ("Lender") to _____, a _____ ("Borrower") made on or about _____ [date of note] and secured by certain real property and improvements known as _____ and located in _____ (the "Property"), Loan No. _____.

Borrower:

Borrower has requested to meet with the undersigned in order to discuss the problems associated with this Loan and a potential workout/restructuring plan for the Loan. In order to be prepared to meet with you, we will need to be furnished as soon as possible with the items detailed on the attached list no later than ____ days from the date of this letter.

Please be advised that the holding of discussions with you does not waive any rights that the U.S. Department of Veterans Affairs ("VA") may have due to the delinquency by the Borrower, does not constitute an agreement to refrain from or delay the exercise of any of the note holder's rights or remedies nor should it be considered an agreement by VA or _____ ("Servicer") to any proposals submitted by or on behalf of the Borrower.

Additionally, as discussed in paragraph 5 of this letter, and as a condition precedent to any workout discussions, VA requires that the Borrower remit all Net Operating Income (as defined in paragraph 5) *[and/or additional requirements]* to the Servicer each month in conjunction with supporting operating statements and any additional information as requested by VA or the Servicer.

Pursuant to the foregoing, VA and the Servicer are willing to hold those discussions with Borrower upon the following terms and conditions:

1. Rights and Remedies Not Affected. Borrower hereby acknowledges that Borrower is delinquent under the Loan Documents (defined at the end of this paragraph) and that VA is entitled to exercise any and all rights and remedies set forth in the Loan Documents, at law or in equity. Holding

discussions with the Borrower, or any correspondence among Borrower, Servicer and VA (any one or more, hereinafter referred to as the "Parties"), or remitting to the Servicer the Net Operating Income (hereinafter defined) from the Property shall not in any way affect or impair any rights or remedies any of the Parties may have, nor shall any of the foregoing be deemed to be a waiver of, or preclude, any rights or remedies of any of the Parties under the Loan Documents or at law or equity, or from commencing the exercise of such rights or remedies. As used herein, Loan Documents shall mean all documents executed by Borrower in connection with the Loan including without limitation and the note.

2. No Oral Modifications. The contemplated discussions may be lengthy and complex. While the Parties may reach verbal agreement on one or more preliminary issues, no Party shall be bound by any agreement, verbal or written, on individual issues, and no rights or liabilities, either express or implied, shall arise on the part of the Parties until and unless (a) agreement is reached on all issues, and (b) our written agreement on all issues has been prepared, negotiated, agreed to, executed and delivered by all Parties thereto. Agreement with regard to any such documents and all terms contained therein shall be within the sole discretion of each Party and no Party shall have any liability for failing to reach any such agreement. Borrower hereby waives reliance on any alleged oral modifications of the Loan Documents or the matters, conditions, or events related to such alleged oral modifications.
3. Confidential and Privileged. The Parties agree that any discussions relating to the Loan are confidential and privileged and shall not be revealed to any third party nor shall they be used or referred to in any litigation, which may ensue by or among the Parties.
4. Preliminary Information. Borrower further agrees to provide Servicer and VA with all documentation and information regarding the Loan, the Property or the Borrower as may be reasonably requested of them in connection with the discussions. Such documentation should include, but not be limited to the documentation pertaining to the presence and condition of lead-based paint in the subject Property, including but not limited to
 - The written results of a visual lead-based paint risk assessment conducted by a HUD-certified assessor following the visual risk assessment protocol proposed by HUD;
 - Information concerning if the Property has been, is currently, or is likely to be in the future the subject of litigation related to the lead-based paint health hazards; and
 - Documentation that the Property manager is complying with HUD's lead-based paint disclosure requirements.

5. Net Operating Income. Borrower agrees that it will remit to Servicer, at a minimum, the monthly Net Operating Income from the Property. This shall not imply any waiver of any claim for payment under the Loan, but rather as a condition to any further negotiations regarding the workout or restructuring of the Loan. "Net Operating Income" is defined to be all revenues generated by operations of the Property, including, but not limited to, rental receipts, late fees, Application Fees, forfeited deposits, laundry and vending income, furniture rental and insurance proceeds, less the reasonable operating expenses for the Property. Under the Program, the proposed Sponsor has the ability to lease office and/or retail space to commercial tenants whose business supports the intent of the Program. Reasonable operating expenses are limited to the following categories: property management company fees [not to exceed ____% of the actual collections (excluding insurance proceeds or condemnation awards) per month], administrative expenses, payroll, utilities, water and sewer taxes and fees, repair and maintenance expenses, real estate taxes, insurance premiums, and replacement reserve payments required under the Loan documents. Reasonable operating expenses do not include expenses of the entity that owns the Property or the Borrower, if different, e.g., accounting or legal expenses for the Borrower. [In addition, Borrower may not make capital expenditures in excess of \$_____ without first obtaining the approval of Servicer/VA.] Unless expressly agreed to herein, no fees, charges, or compensation, shall be paid to the Borrower, its general partners, its limited partners, or other related persons or entities, if any, or to any affiliates thereof. [The Parties expressly agree to allow _____, an affiliate of Borrower to manage the Property.]

The monthly payments of Net Operating Income must be accompanied and supported by a statement of monthly income and expenses, which has been certified by the Borrower. This statement shall be compiled on an accrual [or cash] basis, shall be in such detail as may be requested by VA or the Servicer, and must be received with such cash payments by the Servicer no later than the 10th of the month following the month reported for. Such procedure will commence on _____, _____. The Net Operating Income and statement for the period from _____, _____ to _____, _____ must be received by the Servicer on or before _____, _____.

VA shall be entitled to use the Net Operating Income in any order and for any purpose which is related directly or indirectly to the Loan Documents or to the Property including, without limitation, the payment of attorneys' fees or other charges incurred by VA, application to principal or interest due under the note evidencing the Loan, payment for repairs or capital expenditures for the Property, or any other purpose determined by VA in its sole and absolute discretion. The receipt and application of such funds by VA shall not constitute a waiver of any amounts due under the Loan Documents nor shall it be deemed a waiver of any delinquency in connection therewith.

6. Termination of Discussions. Borrower or VA may in their sole and absolute discretions, unilaterally discontinue the discussions at any time for any reason without any liability whatsoever to the Parties by reason of any such discontinuation or termination.
7. Loan Documents. The Borrower acknowledges that the Loan Documents are valid, legal and binding obligations and are in full force and effect. [Borrower hereby waives and releases any and all claims, demands or causes of action it has or may have against VA or the Lender in connection with the Loan. **[Please note that if the Servicer uses the preceding sentence that the Servicer must accordingly modify the language in Paragraph 1, Sentence 2, from "Parties" to "VA".]**
8. Authorized Representatives. _____ is authorized on behalf of VA and _____ is authorized on behalf of Servicer to hold discussions with the Borrower. Servicer has no authority to bind VA. _____ is authorized on behalf of Borrower to hold such discussions. Such authorization shall remain in effect until changed in writing by the applicable party.
9. Relationship Between the Servicer and the FFB. Borrower acknowledges that FFB is the holder of the note executed in connection with the Loan and that the Servicer is servicing the Loan on behalf of VA. Borrower acknowledges that the relationship is a separate and distinct relationship between the Servicer and VA and that Borrower is neither a party to, nor a beneficiary of, such relationship.
10. Entire Agreement. This agreement constitutes the entire agreement between the Parties concerning its subject matter and supersedes any prior or contemporaneous representations or agreements not contained herein and this agreement may only be amended or modified by an agreement in writing executed by all Parties.
11. Captions. The captions used herein are for convenience of reference only and do not define or limit the scope, content, or intent of this Agreement.
12. Counterparts. This agreement may be executed in counterparts, each of which shall be deemed an original and all of which together shall be deemed one instrument.

If you are in agreement with the foregoing, please execute a copy of this letter and return the same to the undersigned within five (5) business days from the date of your receipt. No discussions shall be held until the undersigned are in receipt of this letter executed by the Borrower.

Sincerely,

VA

By: _____
Name: _____
Title: _____

[Servicer]

By: _____
Name: _____
Title: _____

ACKNOWLEDGED AND AGREED TO THIS _____ DAY OF _____, _____.

[Borrower]

By: _____
[General Partner]

By: _____
Name: _____
Title: _____

LIST OF ITEMS TO BE FURNISHED BY BORROWER

Property Ownership

1. Organizational documents of Borrowing Entity e.g., partnership agreement, articles of incorporation, shareholders' agreement
2. Financial Statement (most recent) for Borrowing Entity [and other principals, if applicable]
3. Financial Statement (most recent) for General Partner(s)
4. Previous two years' tax returns and a financial statement of each guarantor or individual with personal liability for the delinquency
5. Previous two years' tax returns and a financial statement of each guarantor or individual with personal liability for the delinquency
6. Current address for the borrower, borrower principals, including general partner or president
7. List and status of other loans with or guaranteed by the U.S. Government
8. Documentation for subordinate liens on the property

Property Operations

1. Operating Statements: last full year-to-date and most recent year-to-date statements
2. Current rent roll, certified by the Borrower
3. Accounting of cash flow since first delinquent month
4. Schedule of capital improvements made during last 3 years
5. Property management and marketing plan

Property Condition

1. Schedule of capital improvements required, including estimated cost
2. Evidence of compliance with environmental operations and maintenance plan, if applicable

Borrower's Proposed Plan of Workout

1. Brief narrative of borrower's plan clearly identifying terms of the proposed workout and exit strategy
2. Workout Pro Forma for workout period through projected stabilization

Miscellaneous

1. [Any other documents or information warranted by the actions of the borrower, the peculiarities of the loan, or the condition of the property.]

Please send items to:

[With a copy to]:

APPENDIX M

Appendix M
Master Agreement for Servicer's Principal and Interest Custodial Account

Name and Address of Institution:	
ABA/Federal Routing Number	Account Number
Type of depository:	

You are hereby authorized and requested to establish a custodial account to be specifically designated "_____ as Trustee of Principal and Interest Custodial Account or Principal and Interest Disbursement Account for the Department of Veterans Affairs and/or various owners of interests in mortgages." All deposits made in such account shall be subject to withdrawal therefrom signed by the Servicer named below, and shall also be subject to withdrawal therefrom by the Department of Veterans Affairs. No agent of the Servicer or any other party shall be authorized to withdraw funds from the account. You are also authorized to pay immediately to the Department of Veterans Affairs at any time upon its written demand, which need not name a specific amount, the entire amount in such account. This demand shall be made in the Department of Veterans Affairs' sole discretion.

You are further authorized upon request of the Department of Veterans Affairs to refuse to honor any instruments drawn upon such account by parties other than the Department of Veterans Affairs and to change the name of the aforesaid account to "Department of Veterans Affairs." In no instance shall the funds in the Principal and Interest Custodial Account or Principal and Interest Disbursement Account be used to offset funds which may have been advanced to, or on behalf of, the Servicer or any other entity by the custodian institution.

The undersigned institution certifies to the Department of Veterans Affairs that the account above identified is in existence in this institution under account number _____ and agrees with the Servicer named above and the Department of Veterans Affairs to honor demands on such account in the manner provided in the above agreement. The undersigned institution further agrees upon the request of the Department of Veterans Affairs to refuse to honor any instruments drawn upon such account by parties other than the Department of Veterans Affairs and to change the name of the aforesaid account to "Department of Veterans Affairs." This demand shall be made in Department of Veterans Affairs' sole discretion. In no instance shall the funds in the Principal and Interest Custodial Account or Principal and Interest Disbursement Account be used to offset funds which may have been advanced to, or on behalf of, the Servicer or any other entity by the custodian institution. Deposits in this institution are insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration, and this institution meets the requirements specified in the Department of Veterans Affairs Servicing Agreement.

Name of Servicer:	
By:	Date:

Name of Institution:	
By:	Date:

Source: HUD-11709

APPENDIX N

APPENDIX N
Master Agreement for Servicer's Escrow Custodial Account

Name and Address of Institution:	
ABA/Federal Routing Number	Account Number
Type of depository:	

You are hereby authorized and requested to establish a custodial account to be specifically designated "_____ as Trustee for the Department of Veterans Affairs and/or various owners of interests in mortgages." All deposits made in such account shall be subject to withdrawal therefrom signed by the Servicer named below, and shall also be subject to withdrawal therefrom by the Department of Veterans Affairs. No agent of the Servicer or any other party shall be authorized to withdraw funds from the account. You are also authorized to pay immediately to the Department of Veterans Affairs at any time upon its written demand, which need not name a specific amount, the entire amount in such account. This demand shall be made in Department of Veterans Affairs' sole discretion.

You are further authorized upon request of the Department of Veterans Affairs to refuse to honor any instrument drawn upon such account by parties other than the Department of Veterans Affairs and to change the name of the aforesaid account to "Department of Veterans Affairs." In no instance shall the funds in the Escrow Custodial Account be used to offset funds which may have been advanced to, or on behalf of, the Servicer or any other entity by the custodian institution.

The undersigned institution certifies to the Department of Veterans Affairs that the account above identified is in existence in this institution under account number _____ and agrees with the Servicer named above and the Department of Veterans Affairs to honor demands on such account in the manner provided in the above agreement. The undersigned institution further agrees upon the request of the Department of Veterans Affairs to refuse to honor any instruments drawn upon such account by parties other than the Department of Veterans Affairs and to change the name of the aforesaid account to "Department of Veterans Affairs." This demand shall be made in Department of Veterans Affairs' sole discretion. In no instance shall the funds in the Escrow Custodial Account be used to offset funds which may have been advanced to, or on behalf of, the Issuer or any other entity by the custodian institution. Deposits in this institution are insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration, and this institution meets the requirements specified in the Department of Veterans Affairs Servicing Agreement.

Name of Servicer:	
By:	Date:

Name of Institution:	
By:	Date:

Source: HUD-11720

APPENDIX 0

APPENDIX O**CERTIFICATIONS AND ASSURANCES**

The undersigned makes the following certifications to induce the Department of Veterans Affairs to issue a certificate of commitment to guarantee the subject loan or a Loan Guaranty Certificate under 38 U.S.C. § 2051.

NOTE: Certain of items listed below may not be applicable to the Applicant's project or program. It is Applicant's responsibility, in conjunction with their legal counsel, to ensure that they are in compliance with all applicable Federal, State, and local laws.

As the duly authorized representative of the applicant, I certify that, to the extent each of the following apply to this applicant or the project being financed by a loan guaranteed by the Secretary of Veterans Affairs (VA), the applicant and its principals:

1. Have the legal authority to apply for Federal assistance, and the institutional, managerial and financial capability (including funds sufficient to pay the non-Federal share of project costs) to ensure proper planning, management and completion of the project described in this application.
2. Will carry out the object and purpose of sections 2051-2054 of title 38, United States Code, which is to increase the number of beds available for homeless veterans and to promote a successful transition from homelessness to independent living by creating a safe, supportive environment for the veterans.
3. Will give VA, the Comptroller General of the United States and, if appropriate, the State, through any authorized representative, access to and the right to examine all records, books, papers, or documents related to the assistance; and will establish a proper accounting system in accordance with generally accepted accounting standards or agency directives.
4. Will not dispose of, modify the use of, or change the terms of the real property title, or other interest in the site and facilities without permission and instructions from VA. Will record the Federal interest in the title of real property in accordance with awarding agency directives and will include a covenant in the title of

- real property acquired in whole or in part with Federal assistance funds to assure non-discrimination during the useful life of the project.
5. Will comply with the requirements of VA with regard to the drafting, review and approval of construction plans and specifications.
 6. Will provide and maintain competent and adequate engineering supervision at the construction site to ensure that the complete work conforms with the approved plans and specifications and will furnish progress reports and such other information as may be required by VA.
 7. Will initiate and complete the work within the applicable time frame after receipt of approval of VA.
 8. Will establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of personal or organizational conflict of interest, or personal gain.
 9. Will comply with the Intergovernmental Personnel Act of 1970 (42 U.S.C. §§ 4728-4763) relating to prescribed standards for merit systems for programs funded under one of the 19 statutes or regulations specified in Appendix A of OPM's Standards for a Merit System of Personnel Administration (5 C.F.R. 900, Subpart F).
 10. Will comply with the Lead-Based Paint Poisoning Prevention Act (42 U.S.C. §§ 4801 et seq.), which prohibits the use of lead-based paint in construction or rehabilitation of residence structures.
 11. Will comply with all Federal statutes relating to non-discrimination. These include but are not limited to: (a) Title VI of the Civil Rights Act of 1964 (P.L. 88-352) which prohibits discrimination on the basis of race, color or national origin; (b) Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. § 794), which prohibits discrimination on the basis of handicaps; (c) the Age Discrimination Act of 1975, as amended (42 U.S.C. §§ 6101-6107), which prohibits discrimination on the basis of age; (d) the Drug Abuse Office and Treatment Act of 1972 (P.L. 92-255), as amended, relating to nondiscrimination on the basis of drug abuse; (e) the Comprehensive Alcohol Abuse and Alcoholism Prevention, Treatment, and Rehabilitation Act of 1970 (P.L. 91-616), as amended, relating to nondiscrimination on the basis of alcohol abuse or alcoholism; (f) §§ 523 and 527 of the Public Health Service Act of 1912 (42 U.S.C. §§ 290dd-2), as amended, relating to confidentiality of alcohol and drug abuse patient

- records; (g) Title VIII of the Civil Rights Act of 1968 (42 U.S.C. §§ 3601 et seq.), as amended, relating to nondiscrimination in the sale, rental or financing of housing; (h) any other nondiscrimination provisions in the specific statute(s) under which application for Federal assistance is being made; and (i) the requirements of any other nondiscrimination statute(s) which may apply to the application.
12. Will comply, or have already complied, with the requirements of Titles II and III of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (P.L. 91-646) which provide for fair and equitable treatment of persons displaced or whose property is acquired as a result of Federal and federally-assisted programs. These requirements apply to all interests in real property acquired for project purposes regardless of Federal participation in purchases.
 13. Will comply with the provisions of the Hatch Act (5 U.S.C. §§ 1501-1508 and 7324-7328), which limit the political activities of employees whose principal employment activities are funded in whole or in part with Federal funds.
 14. Will comply, as applicable, with the provisions of the Davis-Bacon Act (40 U.S.C. §§ 276a to 276a-7), the Copeland Act (40 U.S.C. § 276c and 18 U.S.C. § 874), and the Contract Work Hours and Safety Standards Act (40 U.S.C. §§ 327-333) regarding labor standards for federally assisted construction subagreements.
 15. Will comply with flood insurance purchase requirements of Section 102(a) of the Flood Disaster Protection Act of 1973 (P.L. 93-324) which requires recipients in a special flood hazard area to participate in the program and to purchase flood insurance if the total cost of insurable construction and acquisition is \$10,000 or more.
 16. Will comply with environmental standards which may be prescribed pursuant to the following: (a) institution of environmental quality control measures under the National Environmental Policy Act of 1969 (P.L. 91-190) and Executive Order (EO) 11514; (b) notification of violating facilities pursuant to EO 11738; (c) protection of wetlands pursuant to EO 11990; (d) evaluation of flood hazards in floodplains in accordance with EO 11988; (e) assurance of project consistency with the approved State management program developed under the Coastal Zone Management Act of 1972 (16 U.S.C. §§1451 et seq.); (f) conformity of Federal actions to State (Clean Air) Implementation Plans under Section 176(c) of the Clean Air Act of 1955, as

- amended (42 U.S.C. § 7401 et seq.); (g) protection of underground sources of drinking water under the Safe Drinking Water Act of 1974, as amended (P.L. 93-523); and, (h) protection of endangered species under the Endangered Species Act of 1973, as amended (P.L. 93-205).
17. Will comply with the Wild and Scenic Rivers Act of 1968 (16 U.S.C. §§ 1271 et seq.) related to protecting components of the national wild and scenic rivers system.
 18. Will assist VA in assuring compliance with Section 106 of the National Historic Preservation Act of 1966, as amended (16 U.S.C. § 470), EO 11593 (identification and protection of historic properties), and the Archaeological and Historic Preservation Act of 1974 (16 U.S.C. §§ 469a-1 et seq.).
 19. Will cause to be performed the required financial and compliance audits in accordance with the Single Audit Act Amendments of 1996 and OMB Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations."
 20. Will comply with all applicable requirements of all other Federal laws, executive orders, regulations, and policies governing this program.
 21. Are not presently debarred, suspended, proposed for debarment, declared ineligible, or involuntarily excluded from covered transactions by any Federal department or agency;
 22. Have not, within a three-year period preceding this proposal, been convicted of or had a civil judgment rendered against them for commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public (Federal, State or local) transaction; violation of Federal or State antitrust statutes or commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, or receiving stolen property.
 23. Are not presently indicted for or otherwise criminally or civilly charged by a governmental entity (Federal, State or local) with commission of any of the offenses enumerated in paragraph 21 of this certification.
 24. Have not, within a three-year period preceding this application or proposal, had one or more public transactions (Federal, State or local) terminated for cause or default.
 25. Will not knowingly enter into any lower tier covered transaction with a person who is debarred, suspended declared ineligible, or voluntarily excluded from participation in this covered transaction, unless authorized by VA.
 26. Will include the clause titled "Certification Regarding Debarment, Suspension,

- Ineligibility, and Voluntary Exclusion-Lower Tier Covered Transactions,” provided by VA, without modification, in all lower tier covered transactions and in all solicitations for lower tier covered transactions.
27. Will comply with the Drug-Free Workplace Act of 1988 (P.L. 100-690), as amended, related to preventing substance abuse in the workplace.
 28. Will implement, maintain, and enforce strict guidelines on sobriety for tenants and their guests as a condition for tenant’s residency.
 29. Will comply, or have complied, with all Federal statutes relating to lobbying activities, including but not limited to 31 U.S.C. § 1352, which provides limitations on use of appropriated funds to influence certain Federal contracting and financial transactions. Will require that the language of this certification be included in the award documents for all subawards at all tiers (including subcontracts, subgrants, and contracts under grants, loans, guarantees, and cooperative agreements) and that all subrecipients shall certify and disclose accordingly.

The certifications and assurances above are material representations of fact upon which VA relies in agreeing to guarantee the loan. False certification or assurance, or violation of the certifications or assurances, shall be grounds for suspension or withdrawal of the guarantee, or government-wide suspension or debarment. I hereby certify under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief.

ACKNOWLEDGMENT

STATE OF }
 } SS:
COUNTY OF }

The Undersigned, a Notary Public in and for said County in the State aforesaid, does hereby certify that _____ of _____, personally known to me to be the same person whose name is subscribed in the foregoing instrument as such officer, appeared before me this day in person and acknowledged that s/he signed and delivered such instrument as his/her own free and voluntary act, and as the free and voluntary act of the corporation on behalf of _____, all for the uses and purposes set forth herein.

Given under my hand and notarial seal on _____, 200__.

Notary Public

My Commission Expires: